

**FIRM BROCHURE**  
(Part 2A of Form ADV)

April 28, 2020

**Ascend Financial Consultants, Inc.**

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**Part 2A of Form ADV (the “Brochure”) provides information about the qualifications and business practices of Ascend Financial Consultants, Inc. If you have any questions about the contents of this Brochure, please contact Stephanie DeWitt at (626) 405-0256. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.**

**Ascend Financial Consultants, Inc. is registered as an investment advisor with the Securities and Exchange Commissions; however, such registration does not imply a certain level of skill or training and no inference to the contrary should be made.**

**Additional information about Ascend Financial Consultants, Inc. and its investment adviser representatives is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**Item 1: Cover Page**

Please refer to previous page.

**Item 2: Material Changes**

Ascend Financial Consultants, Inc. (“AFC” or the “Firm”) is amending this Brochure to reflect the following changes:

The previous version of this Brochure was dated February 26, 2020. The Firm encourages each client to read the current version of this Brochure carefully and to call us with any questions.

Pursuant to federal regulation, AFC will ensure that clients receive a summary of any material changes to this Brochure within 120 days of the close of AFC’s fiscal year-end. Additionally, as the Firm experiences material changes that would affect Client relationships in the future, we will send you a summary of our “Material Changes” under separate cover. For more information about the firm, please contact us at (626) 405-0256.

Additional information about AFC and its investment adviser representative is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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## **Item 4: Advisory Business**

### **A. Description of Firm**

Founded in 2017, Ascend Financial Consultants, Inc. (“AFC” or the “Firm”) is a California-based investment advisory firm that provides investment supervisory services on a discretionary basis to certain clients described in Item 7 herein (“Clients”). The investment instruments AFC advises its clientele on include, but are not limited to, equity stocks, fixed income securities, bonds, exchange traded funds (“ETFs”), mutual funds, options and cash equivalent instruments. Please refer to Item 8 for additional information relating to the investment strategies pursued by AFC and their associated risks. The Firm is a corporation having been organized in the State of California and is owned by its sole shareholder - Ms. Stephanie DeWitt.

### **B. Types of Advisory Services Offered**

#### **1. Financial Planning Services**

AFC’s financial planning services range from comprehensive financial planning to more focused consultations, depending on the needs of each Client. Generally, AFC evaluates the Client’s financial, business and investment information and makes recommendations designed with the intention of achieving the Client’s overall goals and objectives. Clients have the option of utilizing AFC to implement certain investment recommendations, but are under no obligation to do so. Clients should understand that a conflict of interest exists when AFC recommends its own investment management services as the Firm will receive additional compensation as a result of performing such investment management services (please see Item 5 below for additional information). Advice and recommendations may also be given on non-securities matters and any implementation of AFC’s recommendations is entirely at the Client’s discretion. Clients are free at all times to accept or reject any or all recommendations made by AFC and Clients retain the authority and discretion on whether or not to implement any recommendations.

Financial planning recommendations are based on the Client’s financial situation at the time the recommendations are provided, and are based on the information provided by the client. In addition, certain assumptions are made with respect to interest and inflation rates, use of past trends and performance of the market and economy. Past performance is in no way an indication of future performance and AFC cannot offer any guarantees or promises that the Client’s financial goals and objectives will be met. As a Client’s financial situation, goals, objectives, or needs change, the Client is strongly urged to promptly notify AFC. For more information on the risks associated with investing, please refer to Item 8, below.

AFC will typically reduce or waive its fees for Financial Planning Services for those Clients receiving Investment Management Services from the Firm. Please see Item 5 below for additional information relating to the Firm’s fees for Financial Planning Services.

#### **2. Investment Management Services**

AFC provides discretionary and non-discretionary investment advice and management to separately managed accounts on a continuous basis and in accordance with the investment objectives and strategies provided by the Client. For discretionary services, Client (as part of the client agreement with AFC) agrees that AFC will have a limited power-of-attorney as to what

investments to make, when to make them and when to sell them. The Firm's discretionary authority may be subject to conditions or restrictions imposed by a Client, such as when a Client restricts or prohibits transactions in a particular security. Please refer to Item 16 for additional information.

AFC will not maintain possession or custody of the funds or securities of any Client. The Client funds will typically be deposited in either a brokerage firm or bank custodian account. With Client consent, AFC may cause fees to be paid out of separately managed accounts by the Client's custodian.

All investment advice is customizable, with each account managed according to the investment objectives, needs, guidelines, risk tolerance, and other information as provided by the Client. This begins through gathering information from each Client on a Client Profile Form, or other similar documentation. Based upon information received from the Client, the Firm selects appropriate investment opportunities and invests Client assets in various types of securities.

#### **a. Selection of Third Party Advisers**

The Firm will at times recommend one or more third party investment managers ("TPIMs") to manage a portion of a Client's portfolio assets. The recommendation will be based on AFC's determination that such recommendation is suitable in light of the Client's stated investment objectives, guidelines, and restrictions. The TPIM(s) will usually have discretionary authority over AFC Clients' assets allocated to them for management and authorized to buy, sell, and trade in securities in accordance with the Client's investment objectives and selected investment strategy(ies), without obtaining prior approval from the Client.

Once a TPIM is selected, AFC monitors the chosen TPIM to help ensure the TPIM adheres to the mandates of the selected investment strategy(ies) and to help ensure the selected strategy(ies) remain suitable for the Client. AFC's review generally includes, but is not limited to, a combination of the following: (i) assessment of the TPIM's registration status, (ii) a review of the TPIM's disclosure brochures, performance information, and other materials supplied by the TPIM, (iii) an evaluation of the TPIM's investment strategies, key personnel turnover, regulatory events, and ownership changes.

At times, depending on the type of arrangement, the Client will enter into a separate advisory agreement with the TPIM, which will be in addition to, and distinct from the agreement with AFC. In other cases, AFC will enter into an agreement with the TPIM. However, in all instances, and as authorized through the AFC client agreement, AFC has the ability to hire and fire the selected TPIM(s) and reallocate client assets to other TPIMs when AFC deems it to be in the best interest of the Client. Client should be aware that TPIM fees are typically included as part of the fees assessed by AFC.

### **3. "Peak Portfolios" Online Investment Management Services**

AFC offers an automated investment program (the "Program") through which Clients are invested in a range of investment strategies the Firm has constructed and manages, each consisting of a portfolio of exchange-traded funds ("ETFs") and a cash allocation. The Client may instruct AFC to exclude up to three ETFs from their portfolio. These services are typically

offered to Clients who are in the early stages of accumulating savings and have smaller account sizes than those Client's receiving the Firm's Investment Management Services described above.

The Client's portfolio is held in a brokerage account opened by the client at Charles Schwab & Co., Inc. ("CS&Co"). AFC uses the Institutional Intelligent Portfolios® platform ("Platform"), offered by CS&Co Performance Technologies, Inc., d/b/a Schwab Performance Technologies ("SPT"), a software provider to independent investment advisors and an affiliate of CS&Co, to operate the Program. AFC is independent of and not owned by, affiliated with or sponsored or supervised by SPT, CS&Co, or their affiliates (together, "Schwab"). AFC, and not Schwab, is the Client's investment advisor and primary point of contact and is responsible to Client with respect to the Program. AFC and Client are solely responsible, and Schwab is not responsible, for determining the appropriateness of the Program for the Client, choosing a suitable investment strategy and portfolio through the Program for the Client's investment needs and goals, and managing that portfolio on an ongoing basis. AFC has contracted with SPT to provide AFC with the Platform, which consists of technology and related trading and account management services for the Program. The Platform enables AFC to make the Program available to Clients online and includes a system that automates certain key parts of the Firm's investment process (the "System"). The System includes an online questionnaire that helps AFC determine the Client's investment objectives and risk tolerance and select an appropriate investment strategy and portfolio. Clients should note that AFC will recommend a portfolio via the System in response to the Client's answers to the online questionnaire. The Client may then indicate an interest in a portfolio that is one level less or more conservative or aggressive than the recommended portfolio, but AFC then makes the final decision and selects a portfolio based on all the information known about the Client. The System also includes an automated investment engine through which AFC manages the Client's portfolio on an ongoing basis through automatic rebalancing and tax-loss harvesting (if the Client is eligible and elects).

AFC charges Clients a fee for the Program services as further described in Item 5 below. The Firm's fees are not set or supervised by Schwab. While Clients do not pay brokerage commissions or any other fees to CS&Co as part of the Program, Schwab does receive other revenues in connection with the Program including (i) the profit earned by Charles Schwab Bank, a Schwab affiliate, on the allocation to the Schwab Intelligent Portfolios Sweep Program described in the Schwab Intelligent Portfolios Sweep Program Disclosure Statement; (ii) investment advisory and/or administrative service fees (or unitary fees) received by Charles Schwab Investment Management, Inc., a Schwab affiliate, from Schwab ETFs™ Schwab Funds® and Laudus Funds® that could be selected to buy and hold in the Client's brokerage account; (iii) fees received by Schwab from third-party ETFs that participate in the Schwab ETF OneSource™ program and mutual funds in the Schwab Mutual Fund Marketplace® (including certain Schwab Funds and Laudus Funds) in the Client's brokerage account for services Schwab provides; and (iv) remuneration Schwab may receive from the market centers where it routes ETF trade orders for execution.

#### **4. Pension Consulting Services**

AFC offers pension-consulting services to qualified and non-qualified retirement and deferred compensation plans. In general, these services include, but are not limited to, the review and/or

development of an Investment Policy Statement (“IPS”); analysis, review and recommendation of investment selections; asset allocation advice; communication and education services where AFC assists the plan sponsor in providing meaningful information regarding the retirement plan to its participants; investment performance monitoring and/or ongoing consulting. The plan fiduciary is free to seek independent advice about the appropriateness of any recommended services for the plan.

## **5. Financial Institution Consulting Services**

As part of its Financial Institution Consulting Services, AFC will contract directly with and receive payments from broker-dealers and/or insurance companies (collectively “Financial Institutions”) to provide investment advisory consulting services to the clients of those Financial Institutions. AFC provides investment consulting services to certain broker/dealers’ customers (“Brokerage Customers”) who provide written consent requesting to receive the firm’s consulting services. Broker-Dealer customers have entered into a written advisory agreement with AFC.<sup>1</sup> Services offered to Financial Institution clients normally include a general review of client investments holdings – typically resulting in an AFC investment adviser offering general investment advice. Such contractual engagements typically do not include AFC assuming trading authority over accounts or the ongoing monitoring of securities positions.

Often, clients of Financial Institutions will also engage AFC to provide Investment Management Services on assets not held at the respective Financial Institution. In such instances, these clients will be required to sign AFC’s standard Investment Management Agreement that describes the duties and fees applicable to such services. Clients should understand that this represents a conflict of interest in that AFC has an economic incentive to recommend its Investment Management Services when providing Consulting Services to clients at Financial Institutions. Potential conflicts are mitigated by Brokerage Customers consenting to receive investment consulting services from AFC; by AFC not accepting or billing for additional compensation on broker-dealer’s assets under management beyond the consulting fees disclosed in Item 5 in connection with the investment consultant services; and by AFC not engaging as or holding itself out to the public as a securities broker-dealer. AFC is not affiliated with any broker-dealer.

Additionally, AFC has an incentive to recommend that its clients receiving Investment Management Services, who may also require the use of a Financial Institution for their overall financial profile, utilize those specific Financial Institutions with whom AFC has a contractual relationship to perform Consulting Services. Clients are under no obligation to act upon any recommendations of the Firm, or to execute any transactions through any particular Financial Institution recommended by the Firm.

## **C. Advisory Agreements**

### **1. Information Received by Individual Clients**

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<sup>1</sup> For instance, AFC has entered into a relationship with Mutual Securities, Inc. (“Mutual Securities”), an unaffiliated firm, to serve as a broker-dealer and platform provider for annuity and insurance products held by clients. In this relationship, AFC will contract directly with both Mutual Securities as well as clients of Mutual Securities when performing Consulting Services on their behalf. Please see Items 5 and 10 below for additional information.

At the onset of the Client relationship, AFC gathers information on each Client's investment objectives, risk tolerance, time horizons and financial goals. AFC does not assume responsibility for the accuracy of the information provided by the Client and is not obligated to verify any information received from the Client or from any of the Client's other professionals (e.g., attorney, accountant, etc.). Under all circumstances, Clients are responsible for promptly notifying AFC in writing of any material changes to the Client's objectives, risk tolerance, time horizon, and financial goals. In the event that a Client notifies AFC of any changes, AFC will review such changes and implement any necessary revisions to the Client's portfolio.

## **2. Client Agreements and Disclosures**

Each Client is required to enter into a written agreement with AFC setting forth the terms and conditions under which the Firm shall render its services (the "Agreement"). In accordance with applicable laws and regulations, AFC will provide its disclosure brochure (ADV Part 2A), brochure supplement (ADV Part 2B) and most recent Privacy Notice to each Client prior to or contemporaneously with the execution of the Agreement. The Agreement between AFC and the Client will continue in effect until terminated by either party pursuant to the terms of the Agreement. AFC's fees (as discussed below) shall be prorated through the date of termination and any remaining balance shall be charged or refunded to the Client, as appropriate, in a timely manner.

Neither AFC nor the Client may assign the Agreement without the consent of the other party. Transactions that do not result in a change of actual control or management of AFC shall not be considered an assignment.

As further discussed in Item 15 below, Client's assets will be custodied with a qualified custodian. All custodial and execution fees assessed for Client's assets remain the sole responsibility of Client.

## **D. Participation in Wrap Programs**

AFC sponsors a wrap fee program. AFC selects investments for Client portfolios from securities offered in the wrap program. AFC also determines the allocations and sector weights utilized in the Wrap Program. The appropriate allocation and underlying investments are determined through a consultation with the Client. Clients may place reasonable restrictions, or make reasonable modifications to existing restrictions, regarding the management of their Wrap Program account. Please refer to the Firm's Form ADV Appendix 1 "Wrap Program Brochure" for additional information concerning the Firm's Wrap Program.

## **E. Amount of Client Assets Managed**

As of December 31, 2019, the following represents the amount of client assets under management by the Firm on a discretionary and non-discretionary basis:

<b>Type of Account</b>	<b>Assets Under Management</b>
Discretionary	\$ 104,792,092
Non-Discretionary	\$ 10,677,620
<b>Total:</b>	<b>\$ 115,469,712</b>

### **1. Assets Under Advisement**

AFC also provides investment and financial advice for assets that are not directly managed by the Firm (“Assets Under Advisement” or “AUA”), such as a client’s 401K, pension or other deferred compensation plans. As of December 31, 2019, the following represents the amount of AUA by AFC:

Type of Account	Assets Under Advisement (“AUA”)
Total:	\$ 18,505,516

## **Item 5: Fees and Compensation**

### **A. Compensation for Advisory Services**

As described in greater detail below, AFC charges different types of fees, including fees based on a percentage of assets under management, fixed fees and hourly fees. The specific fees charged by AFC for its financial planning and investment management services will be set forth in the Client’s Agreement.

Fees may be negotiable under certain circumstances at the sole discretion of AFC. In addition, AFC has full discretion to waive its advisory fees in their entirety. Although AFC believes its advisory fees are competitive, Clients should be aware that lower fees for comparable services may be available from other sources.

#### **1. Fixed and Hourly Fees**

For Financial Planning services, the Firm generally charges a fixed fee and/or an hourly fee. The Firm’s fixed fees may be assessed as a one-time fee, or an ongoing fee dependent upon the services received. Generally, rates range from \$1,000 – \$5,000 on a fixed fee basis, or from \$150 – \$300 on an hourly rate basis, based on the scope and complexity of the requested services, as stipulated in the Agreement. These rates may be negotiated based on the sole discretion of the Firm.

Clients are generally requested to pay 50% of the estimated fee upon execution of the Agreement. An invoice for services is issued on completion of the written analysis, which is payable upon receipt. Clients may terminate the Agreement, without penalty, at any time upon written notice. At the time of termination, any prepaid fees will be prorated based on the amount of work completed by the Firm as of the date the notice of termination is received and any unearned fees will be returned to the Client.

#### **2. Fees Based Upon a Percentage of Assets Under Management**

##### **a. Fees for Investment Management Services**

The Firm provides investment management services to clients for a fee based upon a percentage of assets under management. These fees are assessed quarterly, in advance. Fees are calculated using an average daily balance method whereby the average daily balance for each account is

determined by calculating the total dollar value for every calendar day during the previous quarter. All account balances for the previous quarter are then added together and divided by the number of days in the quarter. The fee is then calculated by multiplying the average daily balance of the account by the percentage in the fee schedule below:

Account Size	Annual Fees
\$0 - \$500,000	Up to 1.75%
\$500,001 - \$1,000,000	Up to 1.50%
\$1,000,001 - \$5,000,000	Up to 1.25%
\$5,000,001 - \$10,000,000	Up to 1%
Over \$10,000,000	Negotiated

Investment management fees will be automatically deducted from the Client's account by the custodian as soon as practicable following the end of each applicable period. Should a Client open an account during a quarter, the Firm's management fee will be prorated based on the number of days the account was open during the quarter. In the event the Firm's services are terminated mid-quarter, any paid, unearned fees will be promptly refunded to the Client. The number of days the account was managed during the quarter until termination is used to determine the percentage of the management fee earned (based on the total number of days in the quarter) and the balance is refunded.

Advisory fees are negotiable and arrangements with any particular Client may differ from those described above. In addition, for family and friends of the Firm, the Firm may, in its sole discretion, reduce or waive management fees in their entirety.

The Firm may amend its standard fee schedule at any time by giving thirty (30) days advanced written notice to Clients. Although AFC believes its investment management fees are competitive, Clients should be aware that lower fees for comparable services may be available from other sources.

Please refer to the Firm's Form ADV - Appendix 1 "Wrap Program Brochure" for fees related to the Firm's Wrap Program.

#### **b. TPIM Fees**

As mentioned in Item 4 above, Client should be aware that TPIM fees are typically included as part of the fees assessed by AFC.

#### **c. Fees for Peak Portfolios Online Investment Management Services**

The Firm's fee for its Peak Portfolios Online Investment Management Services is based upon a percentage of assets under management. These fees are assessed quarterly, in arrears. Fees are calculated using an average daily balance method whereby the average daily balance for each account is determined by calculating the total dollar value for every calendar day during the previous quarter. All account balances for the previous quarter are then added together and divided by the number of days in the quarter. The fee is then calculated by multiplying the average daily balance of the account by the percentage in the fee schedule below:

Account Size	Annual Fees
First \$50,000	1%
Over \$50,001	0.75%

These fees will be automatically deducted from the Client's account by the custodian as soon as practicable following the end of each applicable period. Should a Client open an account during a quarter, the Firm's fee will be prorated based on the number of days the account was open during the quarter. In the event the Firm's services are terminated mid-quarter, any paid, unearned fees will be promptly refunded to the Client. The number of days the account was managed during the quarter until termination is used to determine the percentage of the fee earned (based on the total number of days in the quarter) and the balance is refunded.

As described in Item 4 above, Clients do not pay fees to SPT or brokerage commissions or other fees to Schwab as part of the Program. Schwab does receive other revenues in connection with the Program. Brokerage arrangements are further described below in Item 12 below.

#### **d. Fees for Financial Institution Consulting Services**

AFC receives a consulting fee based on the Assets Under Advisement (AUA) from Brokerage Customers who have provided written consent to a broker-dealer to receive the investment consulting service from AFC and have entered into a written advisory agreement with AFC. The consulting fee is calculated from the AUM as of the end of a calendar quarter period multiplied by the annualized rate of 0.125%. The fee is only paid after the completion of one full calendar quarter period following the date of the executed agreement with broker-dealers.

As noted in Item 4 above, AFC has entered into a relationship with Mutual Securities to serve as a broker-dealer and platform provider for annuity and insurance products held by clients. AFC does not receive commissions for the implementation and oversight of products held at Mutual Securities. However, AFC does receive a consulting fee from Mutual Securities for the ongoing oversight and general investment advice on behalf of clients with accounts at Mutual Securities. Per the terms of the agreement, Mutual Securities will issue a statement as to the value of the client's accounts to AFC directly. AFC will then apply its fee and send an invoice for payment directly to Mutual Securities who will remit the monies owed to AFC.

**Please Note:** Should a client be receiving Investment Management Services and Financial Institution Consulting Services, the Firm's Financial Institution Consulting Fees will be separate from, and in addition to, any Investment Management Fees received by the Firm. Furthermore, client accounts receiving Financial Institution Consulting Services held at the respective Financial Institution will not be included in any aggregation calculations for determining the client's Investment Management Fee as reflected in the table found in Section 5(A)(2)(a) above.

#### **B. Other Fees and Expenses**

Clients should understand that the fees described above do not include certain charges imposed by third parties such as custodial fees, charges imposed directly by a mutual fund or ETF in the account, which shall be disclosed in the fund's prospectus (*e.g.*, fund management fees and other fund expenses), transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on

brokerage accounts and securities transactions. Additionally, Clients may incur brokerage commissions and transaction fees. Clients should further understand that such charges, fees and commissions incurred in connection with transactions for a Client's account will be paid out of the assets in the account and are exclusive of and in addition to the fees charged by AFC.

If clients are participating in the Wrap Program, such fees are typically included as part of the fee imposed by the Wrap Program. Detailed advisory and expense fee information about the Wrap Program is available in the Wrap Fee Program brochure. The Wrap Fee Program brochure is provided with this Brochure and is prepared specifically for prospective and current participants in the Wrap Program.

### **C. Additional Information Regarding AFC's Fees**

The Agreement for separately managed accounts executed by Clients specifies that payment of AFC's management fees will be made by the qualified custodian directly from Client's custodial account. Further, the qualified custodian agrees to deliver an account statement to the Client, at least quarterly, showing all disbursements, including AFC's advisory fees, deducted from the account. The Client is encouraged to review all account statements for accuracy. It is the Client's responsibility (and not the custodian's) to ensure the fee and its calculation in relation to the Client's account is correct. Please note that the fees charged by investment company funds and the Client's custodian are exclusive of, and in addition to, AFC's investment advisory fee. Please refer to Item 5.B above.

An Agreement for a separately managed account may be cancelled at any time, by either party, for any reason, customarily upon receipt of 30 days written notice. The advance notice requirement for termination varies by agreement. Upon termination of any account, any prepaid, unearned fees will be promptly refunded and any earned, unpaid fees will be due and payable.

As described in Item 4 above, Clients do not pay fees to SPT or brokerage commissions or other fees to CS&Co. as part of the Program. Schwab does receive other revenues, including (i) the profit earned by Charles Schwab Bank, a Schwab affiliate, on the allocation to the Schwab Intelligent Portfolios Sweep Program described in the Schwab Intelligent Portfolios Sweep Program Disclosure Statement; (ii) investment advisory and/or administrative service fees (or unitary fees) received by Charles Schwab Investment Management, Inc., a Schwab affiliate, from Schwab ETFs<sup>TM</sup> Schwab Funds<sup>®</sup> and Laudus Funds<sup>®</sup> that could be selected to buy and hold in the Client's brokerage account; (iii) fees received by Schwab from third-party ETFs that participate in the Schwab ETF OneSource<sup>TM</sup> program and mutual funds in the Schwab Mutual Fund Marketplace<sup>®</sup> (including certain Schwab Funds and Laudus Funds) in the Client's brokerage account for services Schwab provides; and (iv) remuneration Schwab may receive from the market centers where it routes ETF trade orders for execution. Brokerage arrangements are further described below in Item 12 Brokerage Practices.

### **D. Outside Compensation**

Neither AFC, nor any of its supervised persons, engages in any outside business activity that would result in accepting compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds.

## **Item 6: Performance-Based Fees and Side-by-Side Management**

The Firm does not charge performance-based fees (*i.e.*, fees calculated based on a share of capital gains upon or capital appreciation of the funds or any portion of the funds of an advisory client). Consequently, the Firm does not engage in side-by-side management of accounts that are charged a performance-based fee with accounts that are charged another type of fee (such as assets under management). As described above, the Firm provides advisory services for a percentage of assets under management, in accordance with applicable law.

## **Item 7: Types of Clients**

### **A. Description**

AFC provides investment supervisory and management services on a continuous basis to individuals, high net worth individuals, corporations and pension and profit sharing plans (“Client”). Clients eligible to enroll in the Peak Portfolios Program include individuals, IRAs, and revocable living trusts. Clients that are organizations (such as corporations and partnerships) or government entities, and Clients that are subject to the Employee Retirement Income Security Act of 1974 (“ERISA”), are not eligible for the Program.

### **B. Conditions for Managing Accounts**

The Firm generally requires a minimum initial investment of \$5,000 to enroll in the Peak Portfolios Program<sup>2</sup>, or \$10,000 to open an account receiving Investment Management Services. However, such minimums are negotiable by the Firm in its sole discretion. However, the Firm reserves the right to accept or decline a potential Client for any reason in its sole discretion. Prior to engaging the Firm to provide any of the investment advisory services described in this Brochure, the Client will be required to enter into one or more written Agreements with the Firm setting forth the terms and conditions under which the Firm shall render its services.

There may be times when certain restrictions are placed by a Client, which prevents AFC from accepting or continuing to manage the account. AFC reserves the right to not accept and/or terminate management of a Client’s account if it feels that the Client imposed restrictions which would limit or prevent it from meeting and/or maintaining its overall investment strategy.

Clients eligible to enroll in the “Peak Portfolios” Online Investment Management Program include individuals, IRAs, and revocable living trusts. Clients that are organizations (such as corporations and partnerships) or government entities, and clients that are subject to the Employee Retirement Income Security Act of 1974 (“ERISA”), are not eligible for the Program. The minimum investment required to open an account in the “Peak Portfolios” Online Investment Management Program is \$5,000. The minimum account balance to enroll in the tax-loss harvesting feature of the Program is \$50,000.

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

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<sup>2</sup> The minimum account balance to enroll in the tax-loss harvesting feature of the Peak Portfolios Program is \$50,000.

## **A. Methods of Analysis and Investment Strategies**

AFC's methods of analysis focuses on Modern Portfolio Theory - which is a theory of investment that attempts to maximize a portfolio's expected return for a given amount of portfolio risk, or equivalently minimize risk for a given level of expected return, each by carefully choosing the proportions of various assets. Modern Portfolio Theory states that by employing securities whose price movements have historically low correlations, it is possible to create an efficient portfolio that can offer the highest expected return for a given level of risk, or one with the lowest level of risk for a given expected return. The practice of Modern Portfolio Theory does not employ market timing or stock selection methods of investing but rather a long term, buy-and-hold strategy with periodic rebalancing of the account to maintain desired risk levels. Broad diversification across various asset classes in fixed and equity markets (both domestic and global) provides exposure to multiple sources of risk and return to both optimize the return captured and minimize the volatility at various target levels of risk. While asset class diversification is key, AFC also diversifies globally, including companies from countries in both the developed and emerging markets, as well as within each asset class, owning the vast majority of companies across sectors and industries.

AFC approaches investment analysis, portfolio design, and implementation from a client specific perspective that is generally geared towards long term growth. Investment plans and specific portfolio recommendations are driven by internal factors such as the client's tax situation, overall risk tolerance, current financial situation, and personal goals.

## **B. Risk of Loss**

Investing in securities involves a significant risk of loss which Clients should be prepared to bear. AFC investment recommendations are subject to various market, currency, economic, political and business risks, and such investment decisions may not always be profitable. Clients should be aware that there may be a loss or depreciation to the value of the Client's account. There can be no assurance that the Client's investment objectives will be obtained and no inference to the contrary should be made.

Past performance is not indicative of future results. Therefore, Clients should never assume that future performance of any specific investment or investment strategy will be profitable. Investing in securities (including stocks, mutual funds, and bonds, etc.) involves risk of loss. Further, depending on the different types of investments there may be varying degrees of risk.

Because of the inherent risk of loss associated with investing, the Firm is unable to represent, guarantee, or even imply that its services and methods of analysis can or will predict future results, successfully identify market tops or bottoms, or insulate you from losses due to market corrections or declines.

The primary inherent risk in using the Modern Portfolio Theory is the fact that theory is built on the assumption that over time, historic relationships between investments remain relatively consistent. If a fundamental shift in relationships among the various asset classes/sectors should occur, historical data will no longer accurately represent what can be expected going forward. More volatility can occur if these relationships prove to be incorrect or (for a time) are inconsistent. If asset class relationships do shift, short-term greater than anticipated declines in

the value of portfolios can be seen - which can at times be dramatic. As a result, the Modern Portfolio Theory investment philosophy is best suited for investors who desire a buy and hold strategy for a substantial portion of their funds with a long-term investment time horizon.

The market value of fixed income securities will generally fluctuate inversely with interest rates and other market conditions prior to maturity. Fixed income securities are obligations of the issuer to make payments of principal and/or interest on future dates, and include, among other securities: bonds, notes and debentures issued by corporations; debt securities issued or guaranteed by the U.S. government or one of its agencies or instrumentalities, or by a non-U.S. government or one of its agencies or instrumentalities; municipal securities; and mortgage-backed and asset-backed securities. These securities may pay fixed, variable, or floating rates of interest, and may include zero coupon obligations and inflation-linked fixed income securities. The value of longer duration fixed income securities will generally fluctuate more than shorter duration fixed income securities. Investments in overseas markets also pose special risks, including currency fluctuation and political risks, and it may be more volatile than that of a U.S. only investment. Such risks are generally intensified for investments in emerging markets.

There are certain additional risks associated with the securities recommended and strategies utilized by AFC including, among others:

- Market Risk: Either the stock market as a whole, or the value of an individual company, goes down resulting in a decrease in the value of Client investments. This is also referred to as systemic risk.
- Non-diversification risk: The risk of focusing investments in a small number of issuers, industries or foreign currencies, including being more susceptible to risks associated with a single economic, political or regulatory occurrence than a more diversified portfolio might be.
- Equity (stock) Market Risk: Common stocks are susceptible to general stock market fluctuations and to volatile increases and decreases in value as market confidence in and perceptions of their issuers change. If the Client held common stock, or common stock equivalents, of any given issuer, Client would generally be exposed to greater risk than if Client held preferred stocks and debt obligations of the issuer.
- Fixed Income Risk: When investing in bonds, there is the risk that the issuer will default on the bond and be unable to make payments. Further, individuals who depend on set amounts of periodically paid income face the risk that inflation will erode their spending power. Fixed-income investors receive set, regular payments that face the same inflation risk.
- Interest rate risk: The chance that prices of fixed income securities will decline because of rising interest rates. Similarly, the income from fixed income securities may decline because of falling interest rates.
- Reinvestment Risk: The risk that interest and principal payments from a bond will be reinvested at a lower yield than that received on the original bond. During periods of declining interest rates, bond payments may be invested at lower rates; during periods of rising rates, bond payments may be invested at higher rates.
- ETF and Mutual Fund Risk: When investing in an ETF or mutual fund, Client will bear additional expenses based on your pro rata share of the ETF's or mutual fund's operating

expenses, including the potential duplication of management fees. The risk of owning an ETF or mutual fund generally reflects the risks of owning the underlying securities the ETF or mutual fund holds. Client will also incur brokerage costs when purchasing ETFs.

- **Management Risk:** Client's investment with the Firm varies with the success and failure of our investment strategies, research, analysis and determination of portfolio securities. If our investment strategies do not produce the expected returns, the value of the investment will decrease.
- **Opportunity Cost Risk:** The risk that an investor may forego profits or returns from other investments.
- **Emerging Markets Risk:** Securities markets in emerging market countries are typically smaller than those in more developed countries, making it more difficult to sell securities in order to take profits or avoid losses. Companies in these markets normally have limited product lines, markets or resources, making it difficult to measure the value of the company. Potential political instability and corruption, as well as lower standards of regulation for business practices, increase the possibility of fraud and other legal problems. Public information may be limited with respect to emerging markets issuers and emerging markets issuers may not be subject to uniform accounting, auditing and financial standards and requirements comparable to those applicable to U.S. companies. Therefore, the value of strategies that invest in emerging markets have the propensity to rise and fall substantially.
- **Foreign Investment Risk:** Investments in foreign securities may be riskier than U.S. investments because of factors such as, unstable international, political and economic conditions, currency fluctuations, foreign controls on investment and currency exchange, foreign governmental control of some issuers, potential confiscatory taxation or nationalization of companies by foreign governments, withholding taxes, a lack of adequate company controls.
- **Currency Risk:** Overseas investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This is also referred to as exchange rate risk.
- **Political and Legislative Risks:** Companies face a complex set of laws and circumstances in each country in which they operate. The political and legal environment can change rapidly and without warning and with significant impact, this is especially true for companies operating outside of the United States or that conduct a portion of their business outside of the United States.
- **Inflation Risk:** When any type of inflation is present, a dollar a year from now will not buy as much as a dollar today because purchasing power erodes at the rate of inflation.
- **High Yield Risk:** High yield securities and unrated securities of similar credit quality (commonly known as "junk bonds") are subject to greater levels of credit and liquidity risks.
- **Liquidity Risk:** Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many traders are interested in a standardized product. For example, Treasury Bills are highly liquid, while real estate properties are not.
- **Options Risk:** An option is a contract to buy or sell a specific financial product officially known as the option's underlying instrument or underlying interest. For equity options, the underlying instrument is a stock, exchange-traded fund (ETF), or similar product. The contract itself is very precise. It establishes a specific price, called the strike price, at

which the contract may be exercised, or acted on. It also has an expiration date. When an option expires, it no longer has value and no longer exists. Options come in two varieties, calls and puts, and you can buy or sell either type. Call contracts will expire worthless if the underlying security closes below the strike price on expiration. Put contracts will expire worthless if the underlying security closes above the strike price on expiration. Selling a covered call may limit the upside if the underlying security closes above the strike price on expiration. Special tax rules may apply, depending on the outcome. Prior to buying or selling an option, a person must read Characteristics and Risks of Standardized Options. Copies of this document may be obtained from us, from any exchange on which options are traded, on the web at <http://www.optionsclearing.com/components/docs/riskstoc.pdf> or by contacting The Options Clearing Corporation, One North Wacker Dr., Suite 500, Chicago, IL 60606 (1-888-678-4667). In no event will the Firm engage in “naked” option writing, which is the most speculative form of trading.

### **Item 9: Disciplinary Information**

Registered investment advisors such as AFC are required to disclose all material facts regarding any legal or disciplinary events that would be material to a Client’s or prospective Client’s evaluation of AFC or the integrity of its management. AFC does not have any such legal or disciplinary events and therefore has nothing to disclose with respect to this Item.

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

The Firm’s owner, Ms. Stephanie Dewitt, serves as a licensed insurance agent/broker (CA License #0A12672) with various life, health, annuity and disability insurance companies. There are times when Ms. DeWitt will recommend the purchase of certain insurance products to AFC clients as part of their financial plan. Upon purchase, Ms. DeWitt will receive normal and customary commissions for insurance sales as an insurance agent/broker.

To the extent that Ms. DeWitt recommends the purchase of insurance products where she receives commissions or other compensation for doing so, a conflict of interest exists because Ms. DeWitt has an incentive to make recommendations based on compensation received rather than on a client’s needs. AFC has adopted certain procedures designed to mitigate the effects of these conflicts. As part of our fiduciary duty to clients, AFC and its representatives endeavor at all times to put the interests of the clients first; and recommendations will only be made to the extent that they are reasonably believed to be in the best interests of the client. Additionally, the conflicts presented by these practices are disclosed to clients through AFC's brochures, client agreement and/or verbally prior to or at the time of entering into an agreement with AFC. Clients are not obligated to implement any recommended transactions by Ms. DeWitt. Should the client choose to do so, such implementations are not required to be made through Ms. DeWitt, AFC or any particular insurance carrier. AFC clients should understand that lower fees and/or commissions for comparable services may be available from other sources.

AFC has entered into a relationship with Mutual Securities, an unaffiliated brokerage firm, to serve as a broker-dealer and platform provider for annuity and insurance products held by

clients. In this relationship, AFC will contract directly with both Mutual Securities as well as clients of Mutual Securities when performing Financial Institution Consulting Services on their behalf. AFC does not have the discretionary authority to implement trades for accounts held at Mutual Securities. Mutual Securities is the broker-dealer of record that implements all such transactions. As mentioned in Item 5, while AFC does not receive commissions for such services, it does receive a consulting fee from Mutual Securities for the ongoing oversight and general investment advice on behalf of the client. Please see Items 4 and 5 above for conflicts of interest and additional disclosures related to this relationship.

Please see items 4 and 5 above for additional disclosures related to AFC's relationship with third party investment managers.

## **Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

### **A. Description of Code of Ethics**

AFC is a fiduciary who owes its Clients undivided loyalty. This fiduciary obligation imposes upon AFC and its associated persons a duty to deal fairly with and to act in the best interest of its Clients. In addition, this obligation imposes upon AFC and its associated persons numerous responsibilities, including the duty to render disinterested and impartial advice; to make suitable recommendations within the context of the total portfolio to Clients in light of their needs, financial circumstances and investment objectives; to exercise a high degree of care to ensure that adequate and accurate representations of its business and other information about securities are presented to Clients; and to not engage in fraudulent, deceptive or manipulative practices.

To this end, AFC has adopted a Code of Ethics ("Code") which establishes standards of conduct for the firm's supervised persons and includes general requirements that such supervised persons comply with their fiduciary obligations to Clients and applicable securities laws, and specific requirements relating to, among other things, personal trading, insider trading, conflicts of interest and confidentiality of Client information.

Because AFC's investment professionals and associated persons may transact in the same securities for personal accounts as they may buy or sell for Client accounts, it is important to mitigate potential conflicts of interest. As such, AFC has adopted personal securities transaction policies in its Code, which all of AFC's associated persons must follow. Specifically, the Code requires personnel to report personal trades and holdings and prohibits or requires pre-clearance for certain trades in certain circumstances. The Code also contains procedures for reporting violations and enforcement. The Code is reviewed and distributed to personnel annually. AFC will provide a copy of its Code of Ethics to any Client or prospective Client upon request. Please contact AFC at (626) 405-0256.

### **B. Participation or Interest in Client Transaction**

It is AFC's policy not to enter into any principal transactions or agency cross transactions on behalf of Client accounts. Principal transactions occur where an adviser, acting as principal for its own account, buys securities from or sells securities to any advisory Client. Agency cross

transactions occur where a person acts as an investment adviser in relation to a transaction in which the adviser, or an affiliate of the adviser, acts as broker for both the advisory Client and for another person on the other side of the transaction.

AFC or individuals associated with AFC may buy or sell for their personal account(s) securities or investment products identical to those recommended to or already owned by Clients. Alternatively, AFC may cause Clients to buy a security in which AFC or such individuals have an ownership position. Such recommendations will only be made to the extent that they are reasonably believed to be in the best interests of the Client. Nevertheless, such practices present potential conflicts of interest. To mitigate these conflicts, AFC has adopted a Code of Ethics, which outlines the procedures regarding personal trading that must be followed (see details below). Additionally, as part of AFC's fiduciary duty to Clients, AFC and its supervised persons will endeavor at all times to put the interests of the Clients first and at all times are required to adhere to AFC's Code of Ethics.

### **C. Personal Trading**

On occasion employees of AFC may buy for their own accounts securities which AFC also recommends to Clients. It is possible that officers or employees of AFC may buy or sell securities or other instruments that AFC has recommended to Clients and may engage in transactions for their own account in a manner that is inconsistent with AFC's recommendations to a Client. Personal securities transactions by employees may raise potential conflicts of interest when such persons trade in a security that is owned by, or considered for purchase or sale for, a Client.

In order to mitigate this conflict of interest and to comply with all applicable laws and regulations, AFC's Code of Ethics sets forth the professional and fiduciary standards that all associated persons must follow. The Firm's intention is to protect Client interests at all times and to demonstrate AFC's commitment to its fiduciary duties of honesty, good faith and fair dealing with Clients. All associated persons are expected to adhere strictly to the policy and are required to follow specific procedures regarding personal trading, including:

- Adhere to the fundamental standard that employees should not take inappropriate advantage of their position;
- Conduct all personal securities transactions in a manner consistent with the adopted policy;
- Use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, taking investment actions, and engaging in other professional activities; and
- Comply with applicable provisions of the federal securities laws.

AFC and its Associated Persons may also buy or sell specific securities for their own accounts based on personal investment considerations, which AFC does not deem appropriate to buy or sell for Clients.

## **Item 12: Brokerage Practices**

When the Firm places orders for the execution of portfolio transactions for client accounts, transactions are allocated to brokers and dealers for execution in various markets at prices and commission rates that, based upon good faith judgment, will be in the best interest of the client. In addition to using brokers as “agents” and paying commissions, the Firm may affect transactions in securities directly from or to dealers acting as principal at prices that include markups or markdowns and may purchase from underwriters or dealers in public offerings at prices that include compensation to the underwriters and dealers.

The following discussion summarizes the material aspects of the Firm’s practices for the selection of broker-dealers to execute Client transactions.

### **A. Discretionary Authority and Selection Criteria**

Except in limited situations where AFC permits clients to direct brokerage (as described below), AFC will have discretionary authority to make the following determinations without first obtaining client’s permission for each transaction:

- the securities that are to be bought or sold;
- the total amount of the securities to be bought or sold; and
- when transactions are made.

All separately managed account clients are required to establish custodial accounts with a qualified custodian of record. AFC may only implement its investment management recommendations after the client has arranged for and furnished the Firm with all information and authorization regarding accounts with appropriate financial institutions to act as custodian. In addition, in most cases, a client’s broker-dealer also may act as the custodian of the client’s assets for little or no extra cost. Clients should thoroughly consider, however, the differences between having their assets custodied at a broker-dealer versus at a bank or trust company. Some of these differences include, but are not limited to, custodian costs, trading issues, security of assets, client reporting and technology.

Factors which AFC considers in selecting broker-dealers include their respective financial strength, reputation, execution, pricing, research, and service. The commissions and/or transaction fees charged by particular brokers selected by AFC may be higher or lower than those charged by other broker-dealers.

AFC generally affects all transactions for separately managed accounts through the broker-dealer. AFC periodically evaluates the commissions charged and the service provided by the broker-dealer and compares those with other broker-dealers to evaluate whether overall best qualitative execution could be achieved by using alternative broker-dealers. Other factors AFC may consider when evaluating its choice of broker-dealer include:

- Ability to trade mutual funds and other investments that AFC determines suitable for a client's portfolio;
- Any custodial relationship between the client and the broker-dealer;
- Excellent customer service;

- Interaction simplicity with the Advisor;
- Discount transaction rates; and
- Reliability and financial stability.

For those clients who select broker-dealers not recommended by AFC, clients should be aware that AFC may not be able to negotiate specific brokerage commission rates with the broker on the client's behalf, or seek better execution services or prices from other broker-dealers. As a result, the client may pay higher commissions and/or receive less favorable net prices on transactions for their account than might otherwise be the case and that AFC will have limited ability to ensure the broker-dealer selected by the client will provide best possible execution.

## **B. Best Execution**

AFC will generally seek "best execution" in light of the circumstances involved in transactions. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the overall best qualitative execution, taking into consideration the full range of a broker-dealer's services, including among others, net price, reputation, financial strength and stability, efficiency of execution and error resolution, the size of the transaction and the market for the security. AFC will not obligate itself to obtain the lowest commission or best net price for an account on any particular transaction. Consistent with the foregoing, while AFC will seek competitive rates, it may not necessarily obtain the lowest possible commission rates for client transactions.

To ensure that brokerage firms selected by AFC are conducting overall best qualitative execution, AFC will periodically (and no less often than annually) evaluate the trading process and brokers utilized. This evaluation will include, but is not limited to price, commission, timing, research, aggregated trades, capable floor brokers or traders, competent block trading coverage, ability to position, capital strength and stability, reliable and accurate communications and settlement processing, use of automation, knowledge of other buyers or sellers and administrative ability.

### **1. Research and Other Soft Dollar Benefits**

AFC maintains relationships with, and recommends the services of various qualified third-party broker-dealer custodians. In connection with these relationships, AFC may receive certain benefits. As further described below, such benefits may include research reports, services and seminars, computer software and other products and services to assist the Firm in research and other facets of its day-to-day activities. Selecting a broker-dealer in recognition of the provision of services or products other than transaction execution is known as paying for those services or products with "soft dollars." The Firm's receipt of soft dollar services and products benefit AFC since client brokerage fees are used to obtain such benefits and the Firm does not have to produce or pay for the research, products or services. Consequently, AFC may have an incentive to select or recommend a broker-dealer based on these benefits rather than in the clients' interest in receiving most favorable execution. These practices may also cause clients to pay fees that are higher than those that another qualified broker-dealer might charge to effect the same or similar transaction. Some of these services are provided to AFC as part of a "bundled package" from the broker-dealer. AFC does not attempt to match a particular client's trade executions with broker-dealers who have provided research services which have directly benefited that client's portfolio.

Rather, research services and other soft dollar benefits received by AFC are generally used for the ultimate benefit of all of its clients. Alternatively, some of the services may benefit only a specific segment of AFC's clients.

To help mitigate the conflicts of interest created by AFC's receipt of soft dollar benefits and to help ensure that broker-dealer custodians recommended by the Firm are conducting overall best qualitative execution, AFC will periodically evaluate its trading process and brokers utilized. AFC will review the brokerage firm's services, their value added to the Firm's investment process along with the broker's ability to affect trades in a fair and timely manner at competitive commission rates. At that time brokerage firms not currently utilized will be considered for inclusion if the President of AFC deems that such brokerage firms will significantly improve the Firm's overall management of client accounts.

## **2. Economic Benefits of Being on the Schwab Platform**

AFC typically recommends that clients establish brokerage accounts with the Advisor Services division of Schwab, a registered broker-dealer, member SIPC, to maintain custody of clients' assets and to effect trades for their accounts. The final decision to custody assets with Schwab is at the discretion of the client, including those accounts under ERISA or IRA rules and regulations, in which case the client is acting as either the plan sponsor or IRA accountholder. AFC is independently owned and operated and not affiliated with Schwab. Schwab provides AFC with access to its institutional trading and custody services, which are typically not available to Schwab retail investors. These services generally are available to independent investment advisors on an unsolicited basis, at no charge to advisors. Schwab's services include brokerage services that are related to the execution of securities transactions, custody, research, including that in the form of advice, analyses and reports, and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment.

Schwab also makes available to AFC other products and services that benefit AFC, but may not benefit its clients' accounts. These benefits may include national, regional or AFC specific educational events organized and/or sponsored by Schwab Advisor Services. Other potential benefits may include occasional business entertainment of personnel of AFC by Schwab Advisor Services personnel, including meals, invitations to sporting events, including golf tournaments, and other forms of entertainment, some of which may accompany educational opportunities. Other forms of these products and services assist AFC in managing and administering clients' accounts. These include software and other technology (and related technological training) that provide access to client account data (such as trade confirmations and account statements), facilitate trade execution (and allocation of aggregated trade orders for multiple client accounts), provide research, pricing information and other market data, facilitate payment of AFC fees from its clients' accounts, and assist with back-office training and support functions, recordkeeping and client reporting. Many of these services generally may be used to service all or some substantial number of AFC's accounts, including accounts not maintained at Schwab Advisor Services. Schwab Advisor Services also makes available to AFC other services intended to help AFC manage and further develop its business enterprise. These services may include professional compliance, legal and business consulting, publications and conferences on practice management, information technology, business succession, regulatory compliance, employee benefits providers, human capital consultants,

insurance and marketing. In addition, Schwab may make available, arrange and/or pay vendors for these types of services rendered to AFC by independent third parties. Schwab Advisor Services may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third-party providing these services to AFC. While, as a fiduciary, AFC endeavors to act in its clients' best interests, AFC's recommendation that clients maintain their assets in accounts at Schwab may be based in part on the benefit to AFC of the availability of some of the foregoing products and services and other arrangements and not solely on the nature, cost or quality of custody and brokerage services provided by Schwab, which may create a potential conflict of interest.

### **3. Accounts receiving Peak Portfolios Online Investment Management Services**

Client accounts enrolled in the Program are maintained at, and receive the brokerage services of, Schwab. While Clients are required to use Schwab as custodian/broker to enroll in the Program, the Client decides whether to do so and opens its account with Schwab by entering into a brokerage account agreement directly with Schwab. AFC does not open the account for the Client. If the Client does not wish to place his or her assets with Schwab, then AFC cannot manage the Client's account through the Program. Schwab may aggregate purchase and sale orders for ETFs across accounts enrolled in the Program, including both accounts for AFC's Clients and accounts for clients of other independent investment advisory firms using the Platform.

Schwab Advisor Services™ (formerly called Schwab Institutional) is Schwab's business serving independent investment advisory firms like AFC. Through Schwab Advisor Services, Schwab provides AFC and our Clients, both those enrolled in the Program and Clients not enrolled in the Program, with access to its institutional brokerage services—trading, custody, reporting, and related services—many of which are not typically available to Schwab retail customers. Please see the *"Economic Benefits of Being on the Schwab Platform"* above for disclosures relating to various support services made available to AFC through Schwab.

AFC believes that its selection of Schwab as custodian and broker is in the best interests of our clients. It is primarily supported by the scope, quality, and price of Schwab's services and not Schwab's services that benefit only AFC.

### **4. Directed Brokerage**

Under certain circumstances, AFC will allow a client to direct the Firm to execute all or a portion of client transactions through a specific broker ("Directed Brokerage"). If that is the case, the client should understand that: (1) AFC generally does not negotiate specific brokerage commission rates with the broker on client's behalf, or seek better execution services or prices from other broker-dealers and, as a result, the client may pay higher commissions and/or receive less favorable net prices on transactions for their account than might otherwise be the case; and (2) transactions for that account generally will be effected independently unless AFC is able to purchase or sell the same security for several clients at approximately the same time ("block trade"), in which case the Firm may include such client's transaction with that of other clients for execution by the same broker. If transactions are not able to be traded as a block, the Firm may have to enter the transactions for the client's account after orders for other clients, with the result that market movements may work against the client. Therefore, prior to directing the Firm to use a specific broker-dealer, a client should consider whether, under that restriction, execution,

clearance and settlement capabilities, commission expenses and whatever amount is allocated to custodian fees, if applicable, would be comparable to those otherwise obtainable. Clients should understand that he/she might not obtain commissions rates as low as it might otherwise obtain if AFC had discretion to select or recommend other broker-dealers. Consequently, Directed Brokerage may result in the client paying more money for brokerage services.

Subject to its objective to achieve best execution, AFC may decline a client's request to engage in Directed Brokerage if, in Firm's sole discretion, such Directed Brokerage arrangements would result in additional operational difficulties or violate restrictions imposed by other broker-dealers.

### **C. Trade Aggregation and Allocation**

AFC typically effects transactions for each client account independently, and therefore is usually unable to aggregate client orders. However, when able to, the Firm may aggregate trades of accounts. Trade aggregation, or "bunching of orders," may result in better execution and/or better realized prices. Because AFC's Investment Management Services utilize various types of investments and securities, it may not be possible to bunch orders. Alternatively, even when possible, AFC may not be able to execute all shares of an aggregated trade because of prevailing market conditions and other variables, in which case the Firm will allocate the trade among participating accounts in an equitable manner determined prior to execution of the trade. In certain cases, the Firm may not be able to purchase or sell the same security for all clients that could transact in the security, which is generally based on various factors such as the type of security, size of the account, cash availability and account restrictions. For clients requiring directed brokerage, the Firm may not be able to effectively "bunch" orders on the client's behalf, which could impact the possible advantage clients derive from the aggregation of orders.

### **D. Trade Error Policy**

From time-to-time AFC may make an error in submitting a trade order on a Client's behalf. When this occurs, AFC may place a correcting trade with the broker-dealer which has custody of the Client's account. If an investment gain results from the correcting trade, the gain will remain in the Client's account unless the same error involved other Client account(s) that should have received the gain, it is not permissible for the Client to retain the gain, or AFC confers with the Client who decides to forego the gain (e.g., due to tax reasons). If the gain does not remain in the Client's account and Schwab is the custodian, Schwab will donate the amount of any gain \$100 and over to charity. If a loss occurs greater than \$100, AFC will pay for the loss. Schwab will maintain the loss or gain (if such gain is not retained in the Client's account) if it is under \$100 to minimize and offset its administrative time and expense. Generally, if related trade errors result in both gains and losses in the Client's account, they will be netted.

## **Item 13: Review of Accounts**

### **A. Periodic Reviews**

Accounts are monitored on an ongoing basis, which includes detailed periodic reviews. The frequency of reviews is at the discretion of AFC, but accounts are typically reviewed not less

than quarterly. Accounts are reviewed for performance, consistency with the investment strategy and Client objectives, and other account parameters in order to determine if any adjustments need to be made. Reviews are performed by the investment adviser performing services for the respective Client.

**B. Other Reviews and Triggering Events**

In addition to the periodic reviews described above, reviews may be triggered by changes in a Client's personal, tax or financial status. Account holdings also are reviewed when changing market conditions warrant such review. Clients are encouraged to notify the Firm and its advisory representatives of any changes in his/her personal financial situation that might affect his/her investment needs, objectives, or time horizon.

**C. Regular Reports**

Written account statements are generated no less than quarterly and are sent directly from the account custodian. These statements list the account positions, activity in the account over the covered period, and other related information, including any fees deducted from the account. Clients are also sent confirmations following each brokerage account transaction unless confirmations have been waived. Clients are urged to carefully review all account statements.

In addition, clients may receive other supporting reports from mutual funds, trust companies, broker-dealers or insurance companies based on their involvement with the account and their applicable internal reporting requirements.

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

**A. Incoming Referrals**

Currently, AFC does not have any solicitation or referral arrangements in place whereby the Firm compensates referring parties for these referrals. However, AFC may in the future enter into agreements with individuals and organizations, some of whom may be affiliated or unaffiliated with AFC, that refer clients to AFC. All such agreements will be in writing and comply with the applicable state and federal regulations.

**B. Referring Clients to Third Parties**

AFC does not accept referral fees or any form of remuneration from other professionals when a prospect or client is referred to them by the Firm.

**C. Economic Benefits Received**

**1. Soft-Dollar Benefits**

As discussed under Item 12, AFC receives "soft dollar" benefits whereby brokerage transactions are directed to certain broker-dealers in return for investment research products and/or services which assist AFC in its investment decision-making process. The receipt of such services are deemed to be the receipt of an economic benefit by AFC, and although customary, these

arrangements give rise to conflicts of interest, including the incentive to allocate securities transactional business to broker-dealers based on the receipt of such benefits rather than on a client's interest in receiving most favorable execution.

## **2. Economic Benefits of Being on the Schwab Platform**

As discussed under Item 12, AFC typically recommends that clients establish brokerage accounts with Schwab to maintain custody of clients' assets and to effect trades for their accounts. Schwab makes available to AFC certain products and services that benefit AFC, but may not benefit its clients' accounts such as educational events, entertainment and other services. This arrangement gives rise to potential conflicts of interest, including the incentive to allocate securities transactional business to Schwab based on the receipt of such benefits. Please refer to Item 12 above for additional information.

## **3. Relationship with Mutual Securities**

As detailed in Items 4, 5 and 10 above, AFC has a consulting relationship with Mutual Securities whereby the Firm receives consulting fees for the ongoing support of accounts held with Mutual Securities. Please see Items 4, 5 and 10 for additional disclosures and conflicts related thereto.

## **4. Additional Economic Benefits**

Additionally, as mentioned above, certain AFC representatives have outside business activities that provide additional compensation. Please refer to Item 10 above, and/or the respective representative's Form ADV Part 2B, for detailed information regarding the business activities, the compensation received, the related conflicts and how AFC mitigates such conflicts.

## **Item 15: Custody**

Pursuant to the Investment Advisers Act of 1940, AFC is deemed to have "constructive custody" of Client funds because of the Firm's authority and ability to debit fees directly from the accounts of those Clients receiving investment management services and/or are enrolled in the Peak Portfolios Program. Additionally, certain clients have, and may in the future, sign a Standing Letter of Authorization ("SLOA") that gives AFC the authority to transfer funds to a third-party as directed by the client in the SLOA. This is also deemed to give the Firm custody. Custody is defined as any legal or actual ability by the Firm to withdraw client funds or securities. Firms with deemed custody must take the following steps:

1. Ensure clients' managed assets are maintained by a qualified custodian;
2. Have a reasonable belief, after due inquiry, that the qualified custodian will deliver an account statement directly to the client at least quarterly;
3. Confirm that account statements from the custodian contain all transactions that took place in the client's account during the period covered and reflect the deduction of advisory fees; and
4. Obtain a surprise audit by an independent accountant on the clients' accounts for which the advisory firm is deemed to have custody.

However, the rules governing the direct debit of client fees and SLOAs exempts the Firm from the surprise audit rules if certain conditions (in addition to steps 1 through 3 above) are met. Those conditions are as follows:

1. When debiting fees from client accounts, AFC must receive written authorization from clients permitting advisory fees to be deducted from the client's account.
2. In the case of SLOAs, AFC must: (i) confirm that the name and address of the third party is included in the SLOA, (ii) document that the third-party receiving the transfer is not related to the Firm, and (iii) ensure that certain requirements are being performed by the qualified custodian.

The qualified custodian that is selected by a client maintains actual physical custody of client assets. Client account statements from custodians will be sent directly to each client to the email or postal mailing address that is provided to the qualified custodian selected by the client. Clients are encouraged to compare information provided in reports or statements received by the Firm with the account statements received from their custodian for accuracy. In addition, clients should understand that it is their responsibility, not the custodian's, to ensure that the fee calculation is correct.

If client funds or securities are inadvertently received by the Firm, they will be returned to the sender immediately, or as soon as practical.

AFC encourages clients to raise any questions about the custody, safety or security of their assets. The custodians the Firm does business with will send the client an independent account statements listing your account balance(s), transaction history and any fee debits or other fees taken out of your account.

## **Item 16: Investment Discretion**

### **A. Discretionary Authority; Limitations**

Unless specified otherwise, AFC typically has full investment discretion over (1) which securities are to be bought or sold in Client accounts; (2) the amount of securities to be bought or sold in Client accounts; and (3) when transactions are made. This means that AFC does not have to obtain prior consent from the Client when investing Client assets. In addition, AFC's authority to trade securities may be limited in certain circumstances by applicable legal and regulatory requirements. In some instances, AFC's discretionary authority may be limited by conditions imposed by Clients on AFC's discretionary authority, including restrictions on investing in certain securities or types of securities. All such limitations, restrictions, and investment guidelines must be provided to AFC in writing.

### **B. Limited Power of Attorney**

By signing AFC's Agreement, Clients authorize AFC to exercise this full discretionary authority with respect to all investment transactions involving the Client's investment management account. Pursuant to such Agreement, AFC is designated as the Client's attorney-in-fact with discretionary authority to effect investment transactions in the Client's account which authorizes AFC to give instructions to third parties in furtherance of such authority.

**Item 17: Voting Client Securities**

AFC's policy and practice is to not vote proxies on behalf of its Clients and therefore, shall have no obligation or authority to take any action or render any advice with respect to the voting of proxies solicited by or with respect to issuers of securities held in a Client's account, unless the account is an ERISA account and such authority has not been delegated to another named fiduciary in the plan's written documents. Consequently, the Client retains the responsibility for receiving and voting all proxies for securities held within the Client's account. AFC shall not be deemed to have proxy voting authority solely as a result of providing advice or information about a particular proxy vote to a Client.

AFC typically does not advise or act for Clients with respect to any legal matters, including bankruptcies and class actions, for the securities held in Clients' accounts.

**Item 18: Financial Information**

AFC does not require or solicit prepayment of more than \$1,200 in fees per Client, six months or more in advance and therefore is not required to provide, and has not provided, a balance sheet. AFC does not have any financial commitments that impair its ability to meet contractual and fiduciary obligations to Clients, and has not been the subject of a bankruptcy proceeding.