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## ESI Financial Advisors

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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). The SEC's website also provides information about any persons affiliated with ESI Financial Advisors who are registered as investment adviser representatives of ESI Financial Advisors.

## **Item 2 – Material Changes**

ESI Financial Advisors has not had any material changes to its Form ADV Part 2A brochure since its last update, dated March 30, 2020.

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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. 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 12/31/2019, the Firm managed approximately \$1.2 billion in non-discretionary assets and approximately \$183 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 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 have the option to 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
- American Funds Retirement Plan Platform

- Assetmark (advisor model)
- Morningstar
- Saratoga Advantage Trust
- SEI
- TD Ameritrade Retirement Plan Platform

Third-party asset managers (the strategists available on the Envestnet platform, as well as those that manage other programs described below) can, and often do, use proprietary funds in their model portfolios. Clients should refer to the appropriate third-party manager's Form ADV Part 2A disclosure brochure for additional information on fund and share class selection specific to their selected model portfolio.

Within its ESI Illuminations Flagship Select and ESI Directions programs, EFA is authorized to exercise discretion (as described under Item 16 of this Brochure) to rebalance accounts when the performance of various account holdings, over time, causes or has the potential to 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 programs use different investment vehicles to meet a client's needs and goals. Depending on the program selected, the following types of investments are used:

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 strategies. However, based on the client's needs and goals, short-term strategies 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 have the ability to 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 Unified Managed Accounts ("UMA"). Clients complete a profile questionnaire which assists in determining which of up to fourteen possible investment 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 include mutual funds from which ESI (acting in its capacity as broker/dealer) receives compensation through revenue sharing

arrangements. Not all mutual funds used on the platform provide the Firm with such additional revenue. Funds that do not pay the Firm additional revenue, and which provide substantially similar market exposure as those that do, are available. Third-party asset managers are responsible for selecting the various funds and share classes in which clients' assets are invested, based on the universe of funds available for each model portfolio. Clients have the ability to inquire whether or not cheaper funds and/or share classes are available for any given portfolio.

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 advisory 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 this Brochure and of Envestnet'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 Part 2A for the chosen manager.

Clients have the ability to 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 selects 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. The following asset management firms are currently available through the Third-Party Strategist program: Envestnet|PMC, 3D Asset Management, BlackRock, Brinker Capital, Capital Group (American Funds), Clark Capital, CLS, Fidelity, Fort Washington Advisors, Good Harbor, Morningstar Investment Services, Russell Investments, Symmetry, Vanguard, and W.E. Donoghue & Co.

Envestnet manages the programs pursuant to trade and rebalancing instructions provided by the third-party strategist. Each third-party strategist establishes their own minimum investment requirement(s), but reserves the right to, at their discretion, permit initial investments below the stated minimum. EFA reserves the right to waive minimum investment requirements for accounts in the Envestnet/PMC-managed and Advisor as Portfolio Manager programs.

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

ActivePassive Portfolios blend two opposing, but 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 select from among fourteen available portfolios (seven tax sensitive, seven non-tax sensitive) based on the client's risk score. Selected mutual funds include actively-managed funds from the PMC funds, which is a proprietary fund family of Envestnet's affiliate, Envestnet Asset Management, Inc. Clients and prospective clients should read the applicable PMC fund prospectus for more information regarding fees charged by Envestnet Asset Management, Inc. 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. This program is closed to new investors.

Expedition Plus is an asset allocation program that offers a number of portfolio options (tax sensitive, and 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. This program is closed to new investors.

Flagship is an Envestnet-managed, mutual fund-based asset allocation program. The program includes a combination of no-load and load-waived mutual funds, all of which are no transaction fee (or "NTF") funds, selected by Envestnet (for additional information regarding NTF funds, see "*Fees and Expenses: NTF vs Non-NTF Funds*" below). 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 the available portfolios (tax sensitive, and non-tax sensitive) based on the client's risk score. 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 reserves the right to add, remove, or replace funds as it determines to be appropriate. 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 a series of portfolios, many 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. Minimum investment: \$25,000.

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. 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, and 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.

BlackRock Target Allocation ESG Models – A series of ETF portfolios which are designed to follow the general principles of Environmental Social and Governance (ESG) investing. The Target Allocation ESG investment strategy seeks total return

through exposure to a diversified portfolio with an extensive focus on companies that exhibit positive ESG characteristics.

Brinker Capital makes available mutual fund and ETF model portfolios as part of the Third-Party Strategist platform within ESI Illuminations. Brinker Capital is the discretionary manager and offers portfolios for use in both taxable and non-taxable accounts. Minimum investment: \$25,000.

Capital Group makes available mutual fund model portfolios as part of the Third-Party Strategist platform within ESI Illuminations. Capital Group is the discretionary manager and offers portfolios for use in both taxable and non-taxable accounts. Minimum investment: \$25,000.

Clark Capital makes available model portfolios as part of the Third-Party Strategist platform within ESI Illuminations. Clark Capital is the discretionary manager and offers portfolios for use in both taxable and non-taxable accounts. Minimum investment: \$25,000.

Clark Capital Fixed Income Total Return - a tactical fixed income-based portfolio. The strategy seeks total return with a secondary focus of current income, and is based on two fundamental beliefs:

- 1) Relative strength adapts to changing themes in the debt markets, and
- 2) Volatility in the high yield markets can be managed through a flexible investment approach which allows for dynamic shifts across the fixed income universe.

Clark Capital Navigator Fixed Income Total Return - utilizes the firm's proprietary quantitative relative strength model and applies it on relevant fixed income sectors (low-quality debt, high-quality debt, short-term cash) in attempts to capture intermediate to long-term credit spread opportunities. Clark Capital's strategies do not use leverage or inverse ETFs.

CLS makes available mutual fund and ETF model portfolios as part of the Third-Party Strategist platform within ESI Illuminations. CLS is the discretionary manager and offers portfolios for use in both taxable and non-taxable accounts. Minimum investment: \$25,000.

Fidelity Investments offers the following mutual-fund and ETF-based portfolios, as described below. Minimum investment: \$10,000.

The Target Allocation portfolios seek to provide enhanced risk-adjusted total return across multiple risk profiles. Fidelity Investments is the discretionary manager, and uses active-and-passively managed mutual funds within the portfolios.

The Target Allocation Index-Focused portfolios seek to provide risk-adjusted total return across multiple risk profiles. Fidelity Investments is the discretionary manager, and selects passively-managed mutual funds based on certain market indices.

The Bond Income portfolios use both active-and-passively managed mutual funds and ETFs that seek to provide fixed income. Fidelity Investments is the discretionary manager.

The Multi-Asset Income portfolios seek to provide fixed income using both active-and-passively-managed mutual funds and ETFs. These portfolios may have similar allocations to those found in the Bond Income portfolios described above, but may also provide



exposure to alternative asset classes.

Fort Washington Investment Advisors (“FWA”, an affiliate of Touchstone Advisors, Inc.) makes available the Touchstone Income Strategy (formerly known as the “Sentinel Income Strategy”) program, which seeks to utilize Touchstone 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. FWA is the discretionary manager of the portfolios. Minimum investment: \$100,000.

Good Harbor makes available ETF-based 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. Minimum investment: \$150,000.

Morningstar Investment Services (“Morningstar”) makes available several mutual fund model portfolios. Morningstar is the discretionary manager and the Morningstar model portfolios are branded Asset Allocation Series, Retirement Income Series, Absolute Return, and ETF Portfolios. Minimum investment: \$25,000 for ETFs; \$25,000 for mutual fund portfolios.

Morningstar Asset Allocation Series - A series of 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 - A series of 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 equity 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 several core model strategies with a range of investor risk profiles: conservative, moderate, balanced, growth, and equity growth. Each risk profile has a corresponding standard portfolio and tax-managed portfolio. 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 are available in standard or tax-managed versions. Minimum investment: \$50,000.

Symmetry makes available the Structured Panoramic (funded with mutual funds) and Precision Core (funded with ETFs) model portfolios. Symmetry is the discretionary manager and offers models for use in both taxable and non-taxable accounts. Minimum investment for both the Symmetry Structured and Precision Core portfolios: \$25,000.

Structured Panoramic Portfolio is a strategically allocated, mutual fund-based, multi-factor portfolio. It is broadly diversified and maintains exposure to stocks across U.S., international, and emerging markets.

Precision Core Portfolio is a broadly diversified, global portfolio of exchange-traded funds (ETFs). The model portfolio will be periodically reset to realign the equity component with global market weightings, while maintaining exposure to the value, quality, momentum, size, and low volatility factors.

Vanguard makes available model portfolios comprised of ETFs. 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. 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. 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. 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. Minimum investment: \$25,000.

W.E. Donoghue & Co, LLC makes available the JA Forlines Global Tactical Portfolios ("Global Tactical Portfolios") as a strategist on the ESI Illuminations platform. W.E. Donoghue is the discretionary manager, and uses a tactical investment methodology to construct global investment portfolios using fundamental research. The Global Tactical Portfolios provide exposure to three major asset classes – global equities, fixed income, and alternatives – in a single portfolio through the use of ETFs. The Global Tactical Portfolios are long-term investments, intended for clients seeking growth potential and risk management with a long-term investment horizon. The Global Tactical Portfolios offer portfolios for use in both taxable and non-taxable accounts. Minimum investment: \$50,000.

#### **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 execute an Advisory Agreement in which they grant EFA discretion to rebalance their account. Clients who opened accounts prior to March 30, 2016 have the option of electing 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 universe of no-load, load-waived, and no transaction fee funds (for additional information regarding NTF funds, see "*Fees and Expenses: NTF vs Non-NTF Funds*" below). The program also includes load mutual funds (for example, transfers of existing positions into the program). The Firm retains the option to waive advisory fees on load mutual fund positions for certain periods of time depending on the holding period of the transferred position. 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 Envestnet who receives direction by one or more sub-managers. The advisory representative and client will select from among several available portfolios (tax-sensitive and non-tax sensitive) based on the client's risk score. This program is closed to new investors.

#### **ESI Illuminations – Unified Managed Account ("UMA")**

This program gives clients the ability to utilize the services and strategies of multiple managers within one brokerage account. As the overlay manager, Envestnet executes trading activity, based on the various strategists' models, and maintains the allocation among the strategists, in accordance with the client's Statement of Investment Selection ("SIS"). The platform technology provides the ability to unify multiple strategies and apply ongoing re-balancing within one account. ESI, through its IARs, builds and recommends UMA portfolios, which provide diversification among strategies and/or third-party strategists. Minimum investment: \$150,000.

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 Envestnet 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")**

Directions 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. Envestnet 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. Clients opening accounts after March 30, 2016 execute an Advisory Agreement in which they grant EFA discretion to rebalance their account. Clients who opened accounts prior to March 30, 2016 have the option of electing 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.

Custody of client assets is maintained by NFS with accounts registered in the client's name. Copies of EFA's Form ADV Part 2A-Appendix 1 and Envestnet's Form ADV Part 2A are provided to all ESI Directions clients. Minimum investment: \$100,000.

### **American Funds Retirement Plan Solutions**

American Funds Retirement Plan Solutions is generally designed to serve small and mid-sized employer-sponsored retirement plans, but also offers solutions for large plans. American Funds provides retirement plans with investment options consisting of mutual funds and stable value funds. In designing the plan, the Plan Sponsor selects an investment menu from the American Funds platform. These solutions are available in a variety of share classes, both fee- and commission-based, to accommodate varying plan objectives. The Plan Sponsor will determine the appropriate investments and share class(es) for the plan offerings. Plan design is based on a variety of factors, including administration objectives, plan size, financial advisor service levels, investment choice, and over-all expense objectives, and the investment options – including the fund families and risk level - will vary based on the platform selected.

### **AssetMark**

AssetMark offers asset allocation services. Working with AssetMark, EFA, through its advisory representatives, assists clients in establishing an investment strategy consistent with their investment objectives and risk tolerance. The creation of the investment strategy is based on a client profile questionnaire that helps 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, and 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: As low as \$10,000 (varies by strategist)

ETFs and privately managed accounts: \$100,000

Multi-manager models: \$50,000<sup>1</sup>

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

In addition to being a strategist through the Illuminations Third-Party Strategist Program, Morningstar also offers asset allocation services in its Stock Basket portfolios on a direct basis. Working with Morningstar, EFA, through its advisory representatives, assists clients in establishing an investment strategy consistent with their investment objectives and risk tolerance. The creation of the investment strategy is based on a client profile questionnaire that helps determine such factors as risk tolerance, investment objectives, and financial goals. Morningstar, as the discretionary manager, selects the various stocks, initiates portfolio re-balancing, and provides detailed quarterly performance reports to the IARs and clients. EFA acts

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<sup>1</sup> Assetmark's standard minimum investment is \$50,000. However, minimum investment requirements for other strategists offered through the multi-manager models may vary. Investments in the multi-manager models must meet the specific strategists' minimums, which may be higher than that of Assetmark.

as co-advisor, and shares in the fees collected by Morningstar. Custodial services are provided by Fidelity, Charles Schwab, and BNY Mellon. Minimum investment: \$100,000.

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

The Saratoga Advantage Trust program offers objective setting and asset allocation services. EFA, through its advisory representatives, prepares asset allocation recommendations for each client based on an investor profile questionnaire. 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 changes model allocations based on their capital market assumptions. Clients determine whether or not 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. This program is closed to new investors.

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

SEI Private Trust Company offers objective setting and asset allocation services. Working with SEI, EFA, through its advisory representatives, assists clients in establishing an investment strategy consistent with their investment objectives and risk tolerance based on a questionnaire and client profile. 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. There is no minimum investment; \$60 annual custody fee (assessed by SEI Private Trust Company) applies for account balances less than \$50,000.

#### **TD Ameritrade Retirement Plan Platform ("RPP")**

TD Ameritrade offers a retirement plan platform. Custodial services are provided by TD Ameritrade Trust Company, and brokerage services are provided through TD Ameritrade, Inc. The RPP provides clients with access to mutual fund and ETF investments for use in their retirement portfolio. Working through the RPP, clients will establish an investment strategy consistent with their investment objectives and risk tolerance based on a questionnaire and client profile. Once an investment strategy is established, assets are invested through TD Ameritrade, Inc. Clients have the option of selecting their own investments, without the assistance of a professional asset manager, or they have the option of selecting a professional discretionary asset manager from a list provided through the RPP. Minimum investments will vary, dependent upon the plan sponsor.

### **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, fee-based accounts may result in a higher annual cost to the client than a traditional brokerage account. Thus, depending on a number of factors, the total cost under a fee-based account versus a commission-based 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 are charged for advisory services either 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 to EFA for services provided. Advisory fees for each program are described below.

Program sponsors establish the minimum and maximum fee ranges associated with each of their individual programs. These ranges vary between programs, and create a conflict to representatives in that there is an incentive to recommend programs with higher minimum and/or maximum allowable fees to generate higher fees.

Advisory fees in programs on the Illuminations platform are comprised of several components. The total advisory fee paid by the client is comprised of:

- 1) a platform fee (as applicable to the specific programs described below);
- 2) the third-party strategist's management fee (as applicable); and
- 3) EFA's fee for service, as negotiated between the client and the IAR.

EFA retains the platform fee. Annually, eligible IARs receive a portion of the platform fee that was paid to the Firm, based on the average monthly amount of total client assets they had on the Illuminations platform over the previous year. Specifically, IARs receive payments according to the following schedule:

Average Monthly Balance on ESI Illuminations Platform	Credit
\$0 – \$4,999,999	0%
\$5,000,000 - \$25,000,000	0.01%
\$25,000,001 - \$50,000,000	0.015%
\$50,000,001 - \$100,000,000	0.02%
\$100,000,001 +	0.03%

For illustrative purposes, under this model, an advisor whose average monthly AUM is \$10 million would receive \$1,000 (or 0.01%) from ESI. This income is paid to the advisor out of the revenue that would otherwise be retained by the Firm, and does not result in an increased fee to your account. However, this incentive creates a conflict of interest in that the advisor receives more compensation for placing assets on the Illuminations platform than they might otherwise receive by using another asset management provider. If you are not comfortable with this, you can select another advisory program offered by ESI that is not on the illuminations platform.

On a quarterly basis, a portion of the fee for service (typically between 50%-85%) is paid to the IAR according to their compensation agreement with EFA. The total advisory fee is exclusive of brokerage commissions, transaction fees, and other related costs and expenses which are incurred by the client. Clients 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. Such

expenses may be avoided through the selection of mutual fund share classes which do not include such fees, provided the funds make these share classes available.

SEI accounts do not have a platform or administrative fee, such as those on the Illuminations platform. This creates a conflict of interest for representatives in that they retain more of the advisory fee associated with SEI accounts than with those in other available programs. Conversely, EFA is conflicted in that it is incented to promote programs other than SEI which might otherwise generate more revenue to the Firm.

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.

Clients have the ability to purchase mutual fund shares directly from fund companies, without utilizing the services of an adviser. Doing so could provide clients with similar market exposure without paying advisory fees.

#### **Fees and Expenses: 12b-1 Fees**

Certain funds available in the ESI Illuminations program pay additional compensation to ESI, such as 12b-1 (trail) fees. Other funds available in the ESI Illuminations program do not pay ESI 12b-1 fees. This creates a conflict of interest, because it creates a financial incentive, specifically the receipt of additional compensation, for ESI to recommend mutual funds with greater expenses.

To mitigate this conflict, effective October 22, 2019, 12b-1 fees charged to accounts on the ESI Illuminations platform are credited back to the customer by the custodian (i.e. NFS). Therefore, ESI no longer receives 12b-1 revenue from accounts on its Illuminations platform.

#### **Fees and Expenses: NTF vs Non-NTF Funds**

When considering the use of NTF funds versus non-NTF funds, it is important to understand the associated differences in fees and expenses. Compared to other funds, NTF funds typically have higher "internal expenses," which are comprised of fees charged by the fund based on a percentage of the fund's assets. However, by using NTF funds, clients are not charged transaction fees, which are set fees that would otherwise be charged in conjunction with each purchase or sale of fund shares. Transaction fees are described in the brokerage agreement.

Sometimes, but not always, clients could save money by paying transaction fees and avoiding higher-expense NTF funds. Whether or not a client saves money depends on several factors. Factors that increase the internal fund expenses paid include:

- How much more expensive the NTF fund is compared to a less expensive alternative; and
- The amount of assets held in NTF funds.

Factors that increase the amount the client would pay in transaction fees, but avoid by using NTF funds, include:

- How often the manager makes (or recommends) purchases, sales and/or rebalances the account;
- How often funds are deposited into the account, which are then used to purchase mutual fund shares, resulting in transaction fees;
- How often withdrawals are requested from the account, which would likely result in the sale of mutual fund shares to generate cash for the requested withdrawal;

- Whether the client changes their investment strategy, which would cause the manager to rebalance (or recommend rebalancing of) the account; and/or
- Any other action that results in the purchase and/or the sale of mutual fund shares.

For example: an advisory account funded with \$100,000 could purchase NTF funds. If these funds, on average, had higher internal expenses of 0.33% (as compared to available non-NTF share classes of the same fund), the mutual funds in the account would cost \$330 more in fees each year than their cheaper alternative. However, using the less expensive alternative funds would result in the assessment of transaction fees when 1) the funds were initially purchased, 2) the manager rebalances the holdings or otherwise changes the funds in their investment model, and 3) funds are sold to make a withdrawal from the account. If the cost of each transaction was \$13, and there were 25 transactions in the account in a year, the use of NTF funds would avoid \$325 in transaction fees. Accordingly, under this hypothetical scenario, the additional expense of the higher-expense NTF funds is substantially similar to the amount that would be saved by not paying transaction fees.

The example above is strictly intended for illustrative purposes, and does not reflect the experience of any particular client or program offered through EFA. Clients should discuss these issues with their Financial Advisor, especially if their account is over \$100,000 in value.

Portfolios within the Flagship, program are comprised solely of no-load and load-waived NTF funds. Other Strategist programs may or may not include the use of NTF funds, based on each individual portfolio managers' discretion. If clients are uncomfortable with the use of NTF funds in their portfolio, and would prefer to pay transaction fees, they should work with their representative to ensure their chosen program addresses their concerns.

Within the Flagship Select and Directions programs, IARs may recommend the use of NTF funds when building a portfolio. If Flagship Select and Directions clients are not comfortable with the fees and expenses associated with NTF funds, versus less expensive alternatives, and would prefer to pay transaction fees, they should instruct their advisor to not recommend NTF funds, and they should not agree to purchase NTF funds.

Clients should review the Form ADV Part 2A for any third-party manager being considered, to learn about their use of NTF funds. Clients may or may not be able to restrict the third-party manager's use of NTF funds. Therefore, if clients are uncomfortable with the use of NTF funds in their portfolio, and would prefer to pay transaction fees, but are unable to prevent their use, they should choose a different program.

### **Revenue Sharing Arrangements**

ESI has a revenue sharing agreement with NFS through which the Firm receives additional compensation for the use of NTF funds in the programs available through ESI Illuminations programs. However, ESI does not receive additional compensation with respect to Fidelity's NTF funds, specifically, that are used in these programs. ESI does, however, receive additional compensation based on the average net daily assets held in the Fidelity Money Market Sweep Funds (i.e. Fidelity's Prime Fund, Tax-Exempt Fund, Treasury Fund, and Government Fund). This creates a conflict of interest in that the Firm is incented to favor these Fidelity funds over other funds with respect to which the Firm does not receive additional revenue. 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 in that it has an incentive to promote certain programs that provide additional compensation over others which do not, but which offer substantially similar services. Certain other fund sponsors and/or TPAMs that do not participate in the Strategic Partners program, but whose funds may be used in accounts on the Illuminations platform, make marketing payments to ESI to sponsor certain meetings or events. These include American Funds, BlackRock Funds, Brinker Capital, CLS, Symmetry, and Vanguard. As such, the Firm has an incentive to promote use of these funds, over other available funds, in programs in which the IAR acts as the portfolio manager, specifically Flagship Select and ESI Directions.

### **How Accounts Are Billed**

The following section details the fee schedules for each of the advisory programs offered by EFA. Please note that advisory fees (those charged for services provided by the IAR) are subject to negotiation and often differ between clients, depending on the level of services provided, 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 (except for ESI Directions, as discussed below) 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.

As of January 15, 2018, new accounts opened in third-party strategist programs are charged a platform fee of 0.30%<sup>2</sup> in addition to both the fee charged by the managing strategist, which can range from 0.02%-1.00%, and the fee for service charged by EFA, which generally ranges between 0-2.00%. Third-party strategist accounts opened prior to January 15, 2018 are subject to the fees disclosed in the client's original SIS, or as otherwise amended and agreed to by the client and IAR. The total client fee is provided to the client via the SIS, which is provided and signed by the client at the time the account is opened.

All UMA programs are charged a platform fee of 0.32% in addition to both the fee charged by the third-party strategist(s), which can range from 0.02%–1.00%, and the fee for service charged by EFA, which generally ranges from 0–2.00%. The total client fee is provided to the client via the SIS, which is provided and signed by the client at the time the account is opened.

### **Advisor as Portfolio Manager**

All Advisor as Portfolio Manager programs (i.e. Flagship Select and ESI Directions) will be charged a platform fee between 0.12–0.18%, based on account size, in addition to the fee for service charged by EFA, which generally ranges from 0–2.00%. The total client fee is provided to the client via the SIS, which is provided to and signed by the client at the time the account is opened. Flagship Select and ESI Directions charge a quarterly asset management fee based on the average daily balance for the previous quarter. But, Flagship Select bills in arrears and ESI

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<sup>2</sup> A minimum platform fee of \$75.00 applies to accounts that have an average daily balance below the program's minimum investment requirement. Depending on the account's average daily balance at the end of the quarter, this minimum platform fee may represent more than 0.30% of the assets.

Directions bills in advance. Should a client close their Flagship Select or ESI Directions account before the end of the quarter, they will be reimbursed for those days remaining in the quarter for which asset management services were, or will, not be provided.

### **American Funds Retirement Plan Solutions**

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

<b><i>Plan Market Value</i></b>	<b>Quarterly Fee</b>	<b>Total Annual Fee</b>	<b>Annual Flat Fee (assessed quarterly)</b>
\$1 to \$1,000,000	Not more than 0.25%	$0.25\% \times 4 = 1.00\%$	\$10,000
\$1,000,001 to \$2,500,000	Not more than 0.1875%	$0.1875\% \times 4 = 0.75\%$	\$18,750
\$2,500,001 to \$4,999,999	Not more than 0.15%	$0.15\% \times 4 = 0.60\%$	\$30,000
\$5,000,000 to \$10,000,000	Not more than 0.125%	$0.125\% \times 4 = 0.5\%$	\$50,000
\$10,000,001 or more	Not more than 0.0875%	$0.0875\% \times 4 = 0.35\%$	\$3,500 per million (rounding up to the nearest million)

The actual fee charged is specified in the advisory agreement and, upon the agreement of all parties, the actual fee charged to a client may be lower than the fee schedule above.

Limits are imposed based on the value of the Plan Market Value at the time your Agreement with us is signed. Any future fee reduction, including a reduction based upon an increase in value of the Plan Market Value, must be subsequently agreed to by the Financial Advisor and the Plan Sponsor, documented in writing, and transmitted to and accepted by American Funds Retirement Plan Solutions.

Plan Market Value includes only the assets within the American Funds Retirement Plan Solution, and not other assets of the Plan. 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.

### **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% X 4 = 1.95%
Next \$250,000	0.4500%	0.4500% X 4 = 1.80%
Next \$500,000	0.4000%	0.4000% X 4 = 1.60%
Next \$1,000,000	0.3250%	0.3250% X 4 = 1.30%
Over \$2,000,000	0.2500%	0.2500% X 4 = 1.00%

**ETF and Privately Managed Accounts:**

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

**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:

**Select Stock Baskets:**

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

Strategist Series – \$100,000 account minimum

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, the actual fee charged to a client may be different from the stated fee schedule, as long as the 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%	$0.4375\% \times 4 = 1.75\%$
Next \$500,000	0.3250%	$0.3250\% \times 4 = 1.30\%$
Next \$1,000,000	0.2500%	$0.2500\% \times 4 = 1.00\%$
Next \$1,000,000	0.1750%	$0.1750\% \times 4 = 0.70\%$
Next \$2,000,000	0.1250%	$0.1250\% \times 4 = 0.50\%$
Over \$5,000,000	0.0750%	$0.0750\% \times 4 = 0.30\%$

Upon the agreement of all parties, the actual fee charged to a client may be different 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.

## TD Ameritrade Retirement Plan Platform

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

<b>Plan Market Value</b>	<b>Quarterly Fee</b>	<b>Total Annual Fee</b>	<b>Annual Flat Fee (assessed quarterly)</b>
\$1 to \$1,000,000	Not more than 0.25%	$0.25\% \times 4 = 1.00\%$	\$10,000
\$1,000,001 to \$2,500,000	Not more than 0.1875%	$0.1875\% \times 4 = 0.75\%$	\$18,750
\$2,500,001 to \$4,999,999	Not more than 0.15%	$0.15\% \times 4 = 0.60\%$	\$30,000
\$5,000,000 to \$10,000,000	Not more than 0.125%	$0.125\% \times 4 = 0.5\%$	\$50,000
\$10,000,001 or more	Not more than 0.0875%	$0.0875\% \times 4 = 0.35\%$	\$3,500 per million (rounding up to the nearest million)

The actual fee charged is specified in the advisory agreement and, upon the agreement of all parties, the actual fee charged to a client may be lower than the fee schedule above.

Limits are imposed based on the value of the Plan Market Value at the time your Agreement with us is signed. Any future fee reduction, including a reduction based upon an increase in value of the Plan Market Value, must be subsequently agreed to by the Financial Advisor and the Plan Sponsor, documented in writing, and transmitted to and accepted by American Funds Retirement Plan Solutions.

Plan Market Value includes only the assets within the American Funds Retirement Plan Solution, and not other assets of the Plan. 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 retains the right to 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 are permitted to charge a flat fee for services provided, generally not to exceed \$10,000.

#### **Hourly Rate:**

Advisors are permitted to 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 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 reserves the right to 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 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/or option writing.

EFA will utilize certain asset allocation tools and investment research materials prepared by third-party investment advisers in constructing an appropriate asset allocation 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 Part 2A of those advisers.

Investing in securities involves several risks of which clients should be informed, and prepared to bear, prior to investing. The list below explains the various forms of risk associated with investing in securities.

*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 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 trading 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 an 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 an 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.

- Pursuant to the Securities Exchange Commission's ("SEC") Share Class Selection Disclosure initiative, Equity Services, Inc. ("ESI") self-reported its use of mutual funds that made payments of fees to EFA pursuant to Rule 12b-1 of the Investment Company Act of 1940, in several of its advisory programs. Subsequently, the SEC alleged that, during the period of January 1, 2014 to July 7, 2017, ESI did not adequately disclose to its clients its receipt of, nor the conflict of interest created by, 12b-1 fee revenue and/or its selection of mutual fund share classes that resulted in 12b-1 revenue to ESI.

Without admitting or denying the findings, ESI agreed to an order from the SEC which imposed the following terms: (1) cease and desist from committing or causing any further violations of Section 206(2) of the Advisors Act of 1940; (2) censure by the SEC; and (3) disgorgement of fees and prejudgment interest to affected clients totaling \$587,017.22. The settlement was accepted by the SEC on September 30, 2019.

- 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 the applicable 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.

## 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 Sentinel Asset Management, Inc. ("SAM"), a registered investment adviser.

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 can 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 than with unaffiliated products. This additional revenue often comes in the form of shared revenue based on assets under management, administrative, 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 an incentive to promote certain programs which use affiliated products over other programs which don't use affiliated products (or use affiliated products to a lesser extent).

In some relationships, investment advisers or TPAMs pay EFA for client referrals. The nature of relationships 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 varies 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 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 are paid or directed to any advisory representative who sells these products. Nonetheless, when recommending an asset management program to their clients these marketing payments and educational opportunities present a conflict of interest to the extent that such payments incentivize advisory representatives to recommend Strategic Partners, as opposed to other advisers that do not make such payments. Among its advisory programs, EFA's

Strategic Partners are: 3D Asset Management, Assetmark, Brinker Capital, Envestnet Portfolio Solutions, Maple Capital Management, SEI, and Touchstone Advisors.

### **Sale of the Sentinel Mutual Funds to Touchstone**

EFA and SAM are affiliates, and owned by the same parent corporation. In October 2017, SAM entered into a purchase agreement with Touchstone Advisors, Inc. (“Touchstone”), whereby SAM sold to Touchstone, among other things, assets related to investment advisory services previously provided to Sentinel Group Funds, Inc. (“SGF.”) This is referred to as the “Purchase Agreement.” In connection with this Purchase Agreement, nine series of SGF investment companies were reorganized into either existing or newly created investment companies advised by Touchstone (the “Touchstone Funds”). This transaction is referred to as the “Merger.” After the Merger, various assets advised by EFA, or for which EFA served as the broker dealer of record, merged into the investment companies managed by Touchstone. These are referred to as the “EFA Assets.”

In connection with the Purchase Agreement, SAM received compensation from Touchstone and agreed to return to Touchstone a portion of the compensation (“Refund Amount”) if the EFA Assets fell below a certain threshold within a specified period of time. That period has since expired. However SAM, EFA’s affiliate, still has a financial incentive to preserve assets which were formerly managed by SAM and are now within the Touchstone Funds. This includes assets managed by EFA, as well as those through other investment advisers. Accordingly, EFA has a conflict of interest in recommending the purchase or continued holding of the Touchstone Funds because its affiliate will benefit financially based on maintaining or increasing assets in Touchstone Funds. An IAR’s compensation is not impacted by SAM’s financial incentive.

Many IARs own and operate their own independent companies separate from EFA. Such IARs provide one or more services through these unaffiliated companies including, but not limited to, accounting/tax services, business consulting and insurance brokerage services. If a client engages an IAR to provide any such 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 purchasing initial public offerings (“IPOs”) or 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. Conflicts of interest 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 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 Brochure.

All Supervised Persons whose activities could encompass the solicitation of government clients are required to pre-clear political contributions to local or state candidates, or candidates for federal office who currently hold a state or municipal office, to state and local political parties, or to political action committees.

Advisory representatives of EFA 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 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, often executes 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 NTF mutual funds are used in its proprietary advisory programs (i.e. those on the ESI Illuminations platform). 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.

Transaction fees, service fees, and IRA fees in brokerage accounts associated with programs on the ESI Illuminations platform include a markup by ESI from the actual fee charged by NFS.

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 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. Conflicts of interest are managed through public disclosure to clients and prospective clients, and on the Firm's public website.

Unaffiliated TPAMs occasionally 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. This creates a conflict of interest for IARs who may be incented to favor doing business with certain TPAMs over others, on the basis of benefits received in conjunction with such visits.

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 bears additional program charges. This creates a conflict of interest for the IAR, as they generally retain more of the revenue generated by fees in programs that do not include platform fees (such as SEI) or other administrative fees as part of the overall advisory fee.

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

## **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 in programs on the ESI Illuminations platform. 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 (including commissions and NTF revenue sharing, as applicable) 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. Under certain circumstances, EFA will forego seeking and obtaining more favorable prices and lower commission rates or other charges, when executing trades through NFS, 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 can benefit clients when NFS aggregates client trades with orders from its other clients. This aggregation can provide savings on execution costs through volume discounts that EFA would not otherwise 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, which detail comparative execution data. Such reports are periodically reviewed by senior management.

NFS provides access to NTF funds on the "NTF Mutual Fund" platform, which result in revenue sharing payments from NFS to ESI. Additionally, NFS provides access to NTF funds on the "NTF For Managed" platform, which result in the payment of 12b-1 fees to ESI, which effective October 22, 2019, are credited back to client accounts. In Flagship accounts, where Envestnet is choosing which NTF fund to use, EFA receives more revenue when Envestnet selects a fund from the NTF

Mutual Fund platform as opposed to the NTF For Managed platform. Additionally, in Flagship Select and Directions accounts, where the IAR can recommend NTF funds to the client, a conflict of interest exists because EFA will receive more revenue if the fund purchased is on the NTF Mutual Fund platform (versus using the NTF For Managed platform), because doing so will result in revenue sharing to EFA from NFS (which EFA retains), while 12b-1 fees that would have been received from the fund, under the NTF for Managed platform, are refunded to the client. Clients should consult with their IAR to determine whether a recommended NTF Mutual Fund, or one actually purchased for them, is on the NTF Mutual Fund or NTF For Managed platform at NFS.

### **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 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, the Firm and/or the IARs are authorized to rebalance the accounts, to address variances that are beyond the Firm's tolerances, and the IARs are authorized to do the same, if they are concerned that a variance will result because an account's risk score has changed. In addition to review by advisory representatives, client accounts are reviewed by EFA Senior Business Risk Analysts and/or other home office staff members.

Quarterly performance reports are generated and made available to clients with accounts on the ESI Illuminations platform.. Also, at least quarterly, NFS provides brokerage statements for Illuminations 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, and current asset allocations, and may receive other reports as set forth in their account documentation.

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

EFA pays individuals or entities, acting as bona fide solicitors, a portion of the advisory fee paid to EFA by the client if the client is referred to EFA by the solicitor. All such solicitor arrangements will conform to the requirements set forth in Rule 206(4)-3 of the Investment Advisers Act of 1940.

In addition to the revenue sharing payments from NFS discussed above, ESI (acting in its capacity as broker/dealer) 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: Touchstone Advisors
- Variable Annuities: Allianz, Brighthouse (formerly MetLife), Equitable (formerly AXA) Jackson National, Lincoln National, Nationwide, Prudential, Transamerica

- Indexed Annuities: Allianz, American National Life, Lincoln National, North American, US Life Insurance Company
- Direct Participation Programs: RREEF Property Trust

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 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 EFA's Strategic Partners program is 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 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 did not grant the Firm nor its advisory representatives the authority to exercise investment discretion. However, the owner(s) of such accounts have the ability 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 have granted the Firm discretionary trading authority, under the parameters listed below:

The discretionary investment and trading authority given to EFA, meaning the authority to rebalance the existing holdings in a client's account through purchasing and selling securities without first obtaining the client's express permission, is permitted 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 accordance with the Firm's obligation to seek best execution;

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 are permitted to 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 the client's IAR 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.