

# Disclosure Brochure

March 27, 2020

## **NORTHEAST FINANCIAL GROUP, INC.**

*a Registered Investment Adviser*

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This brochure provides information about the qualifications and business practices of Northeast Financial Group, Inc. (hereinafter "NEFG" or the "firm"). If you have any questions about the contents of this brochure, please contact *Robert L. Hackenberg, Jr.* at (570) 688-9898. 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. Additional information about Northeast Financial Group, Inc. is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Northeast Financial Group, Inc. is an SEC registered investment adviser. Registration does not imply any level of skill or training.

## Item 2. Material Changes

In this Item, NEFG is required to discuss any material changes which have been made to the brochure since the last annual amendment filed March 29, 2019. There are no such material changes to disclose.

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## Item 4. Advisory Business

Originally founded in 1987, NEFG has been in business as an independent registered investment adviser since July 1998. From the onset, NEFG has maintained its commitment to providing comprehensive planning and investment services to the firm's clients, which NEFG believes has led to the firm's continued growth throughout complex times in the financial markets. It is NEFG's focus to provide its clients with a wide array of investment options and unvarying support in an effort to enable them to meet their individual planning objectives. Robert L. Hackenberg, Jr. and Josh R. Laychock are the principal owners of NEFG. As of December 31, 2019, the firm had \$596,513,487 in assets under management, of which \$197,192,995 was managed on a discretionary basis and \$399,320,492 was managed on a non-discretionary basis.

Prior to engaging NEFG to provide any of the foregoing investment advisory services, the client is required to enter into one or more written agreements with NEFG setting forth the terms and conditions under which NEFG renders its services (collectively the "*Agreement*").

This Disclosure Brochure describes the business of NEFG. Certain sections will also describe the activities of *Supervised Persons*. *Supervised Persons* are any of NEFG's officers, partners, directors (or other persons occupying a similar status or performing similar functions), or employees, or any other person who provides investment advice on NEFG's behalf and is subject to NEFG's supervision or control.

### Financial Planning and Consulting Services

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NEFG offers clients a broad range of comprehensive financial planning and consulting services, addressing a variety of matters. These services, which are offered on both a standalone and ongoing basis, may address any or all of the following:

- Financial plan maintenance;
- Estate planning;
- Cash flow analysis;
- Business planning;
- Retirement planning;
- Education funding;
- Estate planning;
- Risk management;
- Long-term care assessment; and
- Disability and survivorship planning.

In performing its services, NEFG is not required to verify any information received from the client or from the client's other professionals (e.g., attorney, accountant, etc.) and is expressly authorized to rely on such information. NEFG recommend the services of itself, its *Supervised Persons* in their individual capacities as insurance agents or registered representatives of a broker-dealer, and/or other professionals to implement its recommendations. Clients are advised that a conflict of interest exists if NEFG recommends its own services or those offered by its Supervised Persons. The client is under no

obligation to act upon any of the recommendations made by NEFG under a financial planning or consulting engagement or to engage the services of any such recommended professional, including NEFG itself. The client retains absolute discretion over all such implementation decisions and is free to accept or reject any of NEFG's recommendations. Clients are advised that it remains their responsibility to promptly notify NEFG if there is ever any change in their financial situation or investment objectives for the purpose of reviewing, evaluating, or revising NEFG's previous recommendations and/or services.

### Investment Management Services

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NEFG manages clients' investment portfolios on a discretionary or non-discretionary basis.

NEFG primarily allocates clients' investment management assets among mutual funds, exchange-traded funds ("ETFs"), individual debt and equity securities, and/or *Independent Managers* (as defined below), as well as the securities components of variable annuities and variable life insurance contracts in accordance with the investment objectives of the client. NEFG also provides advice about any type of legacy position or investment otherwise held in its clients' portfolios, but clients should not assume that these assets are being continuously monitored or otherwise advised on by the Firm unless specifically agreed upon.

NEFG also renders non-discretionary investment management services to clients relative to variable life/annuity products that they may own, their individual employer-sponsored retirement plans, and/or 529 plans or other products that may not be held by the client's primary custodian. In so doing, NEFG either directs or recommends the allocation of client assets among the various investment options that are available with the product. Client assets are maintained at the specific insurance company or custodian designated by the product. Additionally, where appropriate, NEFG recommend that certain accredited investors, as defined in Rule 501 under Regulation D under the Securities Act of 1933, invest in certain private placements, which may include equity, debt and/or pooled investment vehicles.

NEFG tailors its advisory services to the individual needs of clients. NEFG consults with clients initially and on an ongoing basis to determine risk tolerance, time horizon and other factors that may impact the clients' investment needs. NEFG ensures that clients' investments are suitable for their investment needs, goals, objectives and risk tolerance.

Clients are advised to promptly notify NEFG if there are changes in their financial situation or investment objectives or if they wish to impose any reasonable restrictions upon NEFG's management services. Clients can impose reasonable restrictions or mandates on the management of their account (e.g., require that a portion of their assets be invested in socially responsible funds) if, in NEFG's sole discretion, the conditions will not materially impact the performance of a portfolio strategy or prove overly burdensome to its management efforts.

## Use of Independent Managers

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As mentioned above, NEFG recommends that certain clients authorize the active discretionary management of a portion of their assets by and/or among certain independent investment managers ("*Independent Managers*"), based upon the stated investment objectives of the client. The terms and conditions under which the client engages the *Independent Managers* are set forth in a separate written agreement between NEFG or the client and the designated *Independent Managers*. NEFG renders services to the client relative to the discretionary and/or non-discretionary selection or recommendation of *Independent Managers*. NEFG also monitors and reviews the account performance and the client's investment objectives. NEFG receives an annual advisory fee which is based upon a percentage of the market value of the assets being managed by the designated *Independent Managers*. NEFG's annual advisory fee, combined with any fee charged by the *Independent Managers*, will never exceed three percent.

When recommending or selecting an *Independent Manager* for a client, NEFG reviews information about the *Independent Manager* such as its disclosure brochure and/or material supplied by the *Independent Manager* or independent third parties for a description of the *Independent Manager's* investment strategies, past performance and risk results to the extent available. Factors that NEFG considers in recommending an *Independent Manager* include the client's stated investment objectives, management style, performance, reputation, financial strength, reporting, pricing, and research. The investment management fees charged by the designated *Independent Managers*, together with the fees charged by the corresponding designated broker-dealer/custodian of the client's assets, may be exclusive of, and in addition to, NEFG's investment advisory fee set forth above. As discussed above, the client may incur additional fees than those charged by NEFG, the designated *Independent Managers*, and corresponding broker-dealer and custodian.

In addition to NEFG's written disclosure brochure, the client also receives the written disclosure brochure of the designated *Independent Managers*. Certain *Independent Managers* may impose more restrictive account requirements and varying billing practices than NEFG. In such instances, NEFG may alter its corresponding account requirements and/or billing practices to accommodate those of the *Independent Managers*.

## Management of Pooled Investment Vehicles

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NEFG's Principal, Robert L. Hackenberg serves as the managing member to affiliated private investment funds, H&L Capital Group, LLC, H&L Capital II, LLC. In addition, NEFG's Principals Robert L. Hackenberg and Josh R. Laycock serve as the managing members of NEFG Capital Partners LLC, the managing member to two additional affiliated private investment funds, Capital Partners Alternative Income & Growth Fund, LLC and Capital Partners Lending Fund, LLC (collectively with H&L Capital Group, LLC and H&L Capital II, LLC, "*the Funds*").

Interests in *the Funds* are privately offered pursuant to Regulation D under the Securities Act of 1933, as amended. *The Funds* currently rely on an exemption from registration under the Investment Company Act of 1940, as amended. Participation as an investor in *the Funds* is restricted to investors that are qualified clients pursuant to the requirements under Rule 205-3 under the Advisers Act, as well as “accredited investors” as defined under Rule 501(a) of the Securities Act of 1933, as amended and “qualified purchasers” as defined in Section 2(a)(51) of the Investment Company Act of 1940, as amended. *The Funds* are real estate focused pooled investment vehicles.

To the extent certain of NEFG’s individual advisory clients qualify, they will be eligible to participate as members of *the Funds*. Investment in *the Funds* involves a significant degree of risk. All relevant information, terms and conditions relative to *the Funds*, including the compensation received by NEFG or its affiliate as managing member, suitability, risk factors, and potential conflicts of interest, are set forth in the Confidential Private Offering Memorandum (the “Memorandum”), Limited Partnership Agreement (the “Agreement”), and/or Subscription Agreement of each Fund (together, the “Offering Documents”), which each investor is required to receive and/or execute prior to being accepted as an investor in *the Funds*. While *the Funds* are generally considered to be a client of NEFG, “client(s)” may also refer to the investors in *the Funds*.

NEFG will devote its best efforts with respect to its management of both *the Funds* and the individual client accounts. Given the above discussion relative to the objectives, suitability, risk factors, and qualifications for participation in *the Funds*, NEFG may give advice or take action with respect to *the Funds* that differs from that for individual client accounts. To the extent that a particular investment is suitable for both *the Funds* and certain individual client accounts, such investments will be allocated between *the Funds* and the individual client accounts in a manner which NEFG determines is fair and equitable under the circumstances to all of its clients.

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## **Sponsor / Manager of Wrap Program**

NEFG is not the sponsor or manager of a wrap fee program.

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## **Pension Consulting Services**

NEFG provides comprehensive consulting services to pension plans. In general, NEFG assists the engaging client in designing and implementing a plan. The plan design lists the criteria for the selection of investment vehicles and the procedures and timing intervals for monitoring investment performance. NEFG also reviews and recommends various investment options, primarily consisting of mutual funds and ETFs, in an effort to implement an investment platform designed to further the client’s stated objectives.

As part of these services, the firm may provide pension plan participants with educational support services and investment workshops, addressing general financial and plan related matters. NEFG also offers individual enrollment meetings, whereby the firm provides employees with individualized assistance on asset allocations within their respective retirement accounts. These services are rendered pursuant to

specialized engagements which are customized to accommodate the needs and objectives of the engaging party.



## Item 5. Fees and Compensation

NEFG offers its services on a fee basis, which include hourly and/or fixed fees, as well as fees based upon assets under management, depending on the circumstances. Certain of NEFG's *Supervised Persons*, in their individual capacities, may also offer securities brokerage services and insurance products under a separate commission-based arrangement.

### Financial Planning and Consulting Fees

NEFG charges a fixed fee and/or hourly fee to provide financial planning and consulting services. The fees for the initial development of a financial plan generally range from \$500 to \$10,000 on a fixed fee basis and/or \$295 on an hourly basis. Subsequent consulting services or updates to an existing financial plan are generally provided for a fixed fee, which generally ranges from \$100 to \$3,000. These fees are negotiable, but are largely determined by the level and scope of the services and the professional engaged to render them.

Prior to engaging NEFG to provide financial planning and/or consulting services, the client is required to enter into a written agreement with NEFG setting forth the terms and conditions of the engagement. Generally, NEFG requires one-half of the financial planning or consulting fee (estimated hourly or fixed) payable upon entering the written agreement. The balance is generally due upon delivery of the financial plan or completion of the agreed upon services.

### Investment Management Fees

NEFG provides investment management services for an annual fee based upon a percentage of assets under management. The annual fee varies and is largely determined by the size and composition of a client's investment portfolio, as follows:

PORTFOLIO VALUE	BASE FEE
Up to \$250,000	1.35%
\$250,001 - \$500,000	1.25%
\$500,001 - \$750,000	1.15%
\$750,001 - \$1,000,000	1.00%
\$1,000,001 - \$2,500,000	0.90%
\$2,500,000 - \$5,000,000	0.80%
\$5,000,001 - \$7,500,000	0.70%
\$7,500,001 - \$10,000,000	0.60%
\$10,000,001 - \$15,000,000	0.50%
\$15,000,001 - \$20,000,000	0.40%
Above \$20,000,000	Negotiable

## Fixed Portfolios / Variable Annuity / Life Portfolios

PORTFOLIO VALUE	BASE FEE
Up to \$1,000,000	0.55%
\$1,000,001 - \$2,500,000	0.50%
\$2,500,001 - \$5,000,000	0.45%
\$5,000,001 - \$7,500,000	0.40%
\$7,500,001 - \$10,000,000	0.35%
\$10,000,001 - \$15,000,000	0.30%
\$15,000,001 - \$20,000,000	0.25%
Above \$20,000,000	Negotiable

NEFG's annual fee is prorated and charged quarterly, in advance, based upon the market value of the assets being managed by NEFG on the last day of the previous quarter. NEFG's annual fee is exclusive of, and in addition to brokerage commissions, transaction fees, and other related costs and expenses which are incurred by the client. NEFG does not, however, receive any portion of these commissions, fees, and costs. Clients of financial professionals who are referred to NEFG under a solicitation arrangement may be charged an additional 25 to 50 basis points (0.25% – 0.50%) on top of the firm's stated fee schedules, as detailed in the *Agreement*.

## **Pension Consulting Fees**

NEFG provides pension consulting services for an annual asset-based fee. This fee is prorated and charged monthly, in arrears, based upon the market value of the assets on the last day of the month during which the services were provided. The consulting fee is negotiable, but generally ranges up to 125 basis points, depending on the size and needs of the plan and the type of fiduciary services rendered under the engagement with NEFG.

## **Fee Discretion**

NEFG, in its sole discretion, may negotiate to charge a lesser fee based upon certain criteria (i.e., anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client, account retention, *pro bono* activities, etc.).

## **Fees Charged by Financial Institutions**

As further discussed in response to Item 12 (below), NEFG generally recommends that clients utilize the brokerage and clearing services of Charles Schwab & Co., Inc. ("*Schwab*") for investment management accounts.

NEFG may only implement its investment management recommendations after the client has arranged for and furnished NEFG with all information and authorization regarding accounts with appropriate financial institutions. Financial institutions include, but are not limited to, *Schwab*, any other broker-dealer recommended by NEFG, broker-dealers directed by the client, trust companies, banks etc. (collectively referred to herein as the “*Financial Institutions*”).

Clients incur certain charges imposed by the *Financial Institutions* and other third parties such as brokerage commissions and other transaction costs, margin costs, reporting charges, fees charged by *Independent Managers*, fees related to private investments, custodial fees, charges imposed directly by a mutual fund or ETF in the account, which are disclosed in the fund’s prospectus (e.g., fund management fees and other fund expenses), deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Additionally, for assets outside of any wrap fee programs, clients may incur brokerage commissions and transaction fees. Such charges, fees and commissions are exclusive of and in addition to NEFG’s fee.

### **Fee Debit**

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NEFG’s *Agreement* and the separate agreement with any *Financial Institutions* generally authorize NEFG or *Independent Managers* to debit the client’s account for the amount of NEFG’s fee and to directly remit that management fee to NEFG or the *Independent Managers*. Any *Financial Institutions* that serve as qualified custodian for client accounts have agreed to send a statement to the client, at least quarterly, indicating all amounts disbursed from the account including the amount of management fees paid directly to NEFG.

Alternatively, clients may elect to have NEFG send an invoice for payment.

### **Fees for Management During Partial Period of Service**

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For the initial period of investment management services, the fees are calculated on a *pro rata* basis.

The *Agreement* between NEFG and the client will continue in effect until terminated by either party pursuant to the terms of the *Agreement*. NEFG’s fees are prorated through the date of termination and any remaining balance is charged or refunded to the client, as appropriate.

Clients may make additions to and withdrawals from their account at any time, subject to NEFG’s right to terminate an account. Additions may be in cash or securities provided that NEFG reserves the right to liquidate any transferred securities or decline to accept particular securities into a client’s account. Clients may withdraw account assets on notice to NEFG, subject to the usual and customary securities settlement procedures. However, NEFG designs its portfolios as long-term investments and the withdrawal of assets may impair the achievement of a client’s investment objectives. NEFG may consult with its clients about the options and ramifications of transferring securities. However, clients are advised

that when transferred securities are liquidated, they are subject to transaction fees, fees assessed at the mutual fund level (i.e. contingent deferred sales charge) and/or tax ramifications.

If assets are deposited into or withdrawn from an account after the inception of a month or quarter, the fee payable with respect to such assets will not be adjusted or prorated based on the number of days remaining in the month or quarter.

### **Commissions or Sales Charges for Recommendations of Securities**

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Clients can engage certain persons associated with NEFG (but not NEFG itself) to render securities brokerage services under a separate commission-based arrangement. Clients are under no obligation to engage such persons and may choose brokers or agents not affiliated with NEFG.

Under this arrangement, clients may implement securities transactions through certain of NEFG's Supervised Persons in their respective individual capacities as registered representatives of Leigh Baldwin & Co., LLC ("LB"), an SEC registered broker-dealer and member of FINRA (the "Brokerage Relationship"). LB charges brokerage commissions to effect certain of these securities transactions and thereafter, a portion of these commissions can be paid by LB to such Supervised Persons. Prior to effecting any transactions through the Brokerage Relationship, clients are required to enter into a new account agreement with LB. The brokerage commissions charged by LB may be higher or lower than those charged by other broker-dealers.

A conflict of interest exists to the extent that a Supervised Person of NEFG recommends the purchase or sale of securities through a brokerage relationship where that Supervised Person receives commissions or other additional compensation as a result of that recommendation (the "Brokerage Relationship"). Because the Supervised Persons receive compensation in connection with the sale of securities in the Brokerage Relationship, a conflict of interest exists as such Supervised Persons have an incentive to recommend more expensive securities or services to clients where such Supervised Persons earn more compensation with respect to the sale of such securities through the Brokerage Relationship rather than through an advisory relationship with the Firm. The Firm has procedures in place to ensure that any recommendations made by such Supervised Persons to engage in the Brokerage Relationship are in the best interest of that client. Clients should understand that the investments made in the Brokerage Relationship are not receiving advisory services from the Firm. Therefore, the Firm does not have a fiduciary duty over the Brokerage Relationship recommendations.

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

NEFG does not provide any services for performance-based fees. Performance-based fees are those based on a share of capital gains on or capital appreciation of the assets of a client.

## Item 7. Types of Clients

NEFG provides its services to individuals, pension and profit sharing plans, state and municipal government entities, trusts, estates, charitable organizations, corporations and business entities, and pooled investment vehicles.

### Minimum Annual Fee

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As a condition for starting and maintaining an investment management relationship, NEFG may impose a minimum annual fee of \$1,000. The minimum fee may have the effect of making NEFG's services impractical for certain investors, particularly those with portfolios with less than \$50,000 in assets to be managed. However, NEFG's minimum annual fee for providing investment management services will never exceed three percent (3.00%) of a client's portfolio. NEFG, in its sole discretion, may elect to waive its minimum annual fee based upon certain criteria, such as future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client, account retention, and *pro bono* activities.

### Minimums Imposed by Independent Managers

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Certain *Independent Managers* may impose more restrictive account requirements and varying billing practices than NEFG. In such instances, NEFG may alter its corresponding account requirements and/or billing practices to accommodate those of the *Independent Managers*.

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

### Methods of Analysis

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The firm analyzes investment options and portfolio allocations pursuant to an asset allocation methodology. NEFG's asset allocation analysis involves a strategy in which NEFG seeks to balance risk and reward by apportioning portfolio assets among various asset classes according to an individual's objectives, time horizon and risk tolerance. While NEFG believes that this diversification affords clients an added level of protection from overexposure to any one asset class, it also ensures that portfolios are subjected to a variety of asset classes that may prove volatile during a given period.

In selecting the individual securities and portfolio managers that, in the firm's opinion, provide the best upside exposure in any given asset class, NEFG may examine a variety of indicators derived from a range of fundamental, technical and/or cyclical analytical metrics.

Fundamental analysis involves an assessment of the fundamental financial condition and competitive position of a company. NEFG analyzes the financial condition, capabilities of management, earnings, new products and services, as well as the company's markets and position amongst its competitors in order to determine the recommendations made to clients. The primary risk in using fundamental analysis is that while the overall health and position of a company may be good, market conditions may negatively impact the security.

Technical analysis involves an examination of past market data rather than specific company data in determining the recommendations made to clients. Technical analysis may involve the use of charts to identify market patterns and trends which may be based on investor sentiment rather than the fundamentals of the company. The primary risk in using technical analysis is that spotting historical trends may not help to predict such trends in the future. Even if the trend will eventually reoccur, there is no guarantee that NEFG will be able to accurately predict such a reoccurrence.

Cyclical analysis is similar to technical analysis in that it involves the examination of market conditions at a macro (entire market/economy) or micro (company specific) level, rather than the overall fundamental analysis of the health of the particular company that NEFG is recommending. The risks with cyclical analysis are similar to those of technical analysis.

### Investment Strategies

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As stated above, NEFG selects securities based on asset allocation decisions, rather than decisions about the attractiveness of individual stocks or bonds. Specifically, the firm seeks to determine the mix of funds, common stocks, bonds and money market instruments (i.e., cash investments) that offers the best combination of potential risk and return. NEFG's aim is to maximize the long-term total returns of its client's investment portfolios. At any given time, the firm may allocate all, a portion, or none of its clients'

assets to large-capitalization U.S. stocks, long-term U.S. Treasury bonds, or money market instruments, respectively.

In each of its clients' portfolios, NEFG utilizes a mix of individual securities, mutual funds, ETFs and/or cash equivalents based on the client's individual needs, objectives, time horizon, cash flow constraints and risk profile. The firm may employ a passive and/or tactical investment approach within a given portfolio or weighting. NEFG may further utilize active fund managers for any investment alternatives or investment category contained within the portfolio.

## **Risks of Loss**

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### *General Risk of Loss*

Investing in securities involves the risk of loss. Clients should be prepared to bear such loss.

### *Market Risks*

The profitability of a significant portion of NEFG's recommendations may depend to a great extent upon correctly assessing the future course of price movements of stocks and bonds. There can be no assurance that NEFG will be able to predict those price movements accurately.

### *Volatility Risks*

The prices and values of investments can be highly volatile, and are influenced by, among other things, interest rates, general economic conditions, the condition of the financial markets, the financial condition of the issuers of such assets, changing supply and demand relationships, and programs and policies of governments.

### *Cash Management Risks*

The Firm may invest some of a client's assets temporarily in money market funds or other similar types of investments, during which time an advisory account may be prevented from achieving its investment objective.

### *Equity-Related Securities and Instruments*

The Firm may take long and short positions in common stocks of U.S. and non-U.S. issuers traded on national securities exchanges and over-the-counter markets. The value of equity securities varies in response to many factors. These factors include, without limitation, factors specific to an issuer and factors specific to the industry in which the issuer participates. Individual companies may report poor results or be negatively affected by industry and/or economic trends and developments, and the stock prices of such companies may suffer a decline in response. In addition, equity securities are subject to stock risk, which is the risk that stock prices historically rise and fall in periodic cycles. U.S. and non-U.S. stock markets have experienced periods of substantial price volatility in the past and may do so again in



the future. In addition, investments in small-capitalization, mid-capitalization and financially distressed companies may be subject to more abrupt or erratic price movements and may lack sufficient market liquidity, and these issuers often face greater business risks.

### *Fixed Income Securities*

Fixed income securities are subject to the risk of the issuer's or a guarantor's inability to meet principal and interest payments on its obligations and to price volatility.

### *Mutual Funds and Exchange Traded Funds (ETFs)*

An investment in a mutual fund or ETF involves risk, including the loss of principal. Mutual fund and ETF shareholders are necessarily subject to the risks stemming from the individual issuers of the fund's underlying portfolio securities. Such shareholders are also liable for taxes on any fund-level capital gains, as mutual funds and ETFs are required by law to distribute capital gains in the event they sell securities for a profit that cannot be offset by a corresponding loss.

Shares of mutual funds are generally distributed and redeemed on an ongoing basis by the fund itself or a broker acting on its behalf. The trading price at which a share is transacted is equal to a fund's stated daily per share net asset value ("NAV"), plus any shareholders fees (e.g., sales loads, purchase fees, redemption fees). The per share NAV of a mutual fund is calculated at the end of each business day, although the actual NAV fluctuates with intraday changes to the market value of the fund's holdings. The trading prices of a mutual fund's shares may differ significantly from the NAV during periods of market volatility, which may, among other factors, lead to the mutual fund's shares trading at a premium or discount to NAV.

Shares of ETFs are listed on securities exchanges and transacted at negotiated prices in the secondary market. Generally, ETF shares trade at or near their most recent NAV, which is generally calculated at least once daily for indexed-based ETFs and more frequently for actively managed ETFs. However, certain inefficiencies may cause the shares to trade at a premium or discount to their pro rata NAV. There is also no guarantee that an active secondary market for such shares will develop or continue to exist. Generally, an ETF only redeems shares when aggregated as creation units (usually 50,000 shares or more). Therefore, if a liquid secondary market ceases to exist for shares of a particular ETF, a shareholder may have no way to dispose of such shares.

### *Use of Private Collective Investment Vehicles*

NEFG recommends that certain clients invest in privately placed collective investment vehicles (e.g., hedge funds, private equity funds, etc.). The managers of these vehicles have broad discretion in selecting the investments. There are few limitations on the types of securities or other financial instruments which may be traded and no requirement to diversify. Hedge funds may trade on margin or otherwise leverage positions, thereby potentially increasing the risk to the vehicle. In addition, because the vehicles are not registered as investment companies, there is an absence of regulation. There are

numerous other risks in investing in these securities. Clients should consult each fund's private placement memorandum and/or other documents explaining such risks prior to investing.

### *Use of Independent Managers*

NEFG may recommend the use of *Independent Managers* for certain clients. NEFG will continue to do ongoing due diligence of such managers, but such recommendations relies, to a great extent, on the *Independent Managers* ability to successfully implement their investment strategy. In addition, NEFG does not have the ability to supervise the *Independent Managers* on a day-to-day basis other than as previously described in response to Item 4, above.

### **Item 9. Disciplinary Information**

NEFG is required to disclose the facts of any legal or disciplinary events that are material to a client's evaluation of its advisory business or the integrity of management. NEFG does not have any required disclosures to this Item.

## Item 10. Other Financial Industry Activities and Affiliations

NEFG is required to disclose any relationship or arrangement that is material to its advisory business or to its clients with certain related persons.

### Registered Representatives of Broker Dealer

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Certain of NEFG's *Supervised Persons* are registered representatives of *LB*. These arrangements are discussed in further detail in response to Item 5 (above) and Item 12 (below).

### Registration as Insurance Agency

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NEFG is a duly licensed insurance agency. Additionally, certain of NEFG's *Supervised Persons*, in their individual capacities, are licensed insurance agents with various insurance companies, and in such capacity, may recommend, on a fully-disclosed basis, the purchase of certain insurance products. A conflict of interest exists to the extent that NEFG or its *Supervised Persons* recommend the purchase of insurance products where NEFG or its *Supervised Persons* receive insurance commissions or other additional compensation.

### Affiliation with Pooled Investment Vehicles

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NEFG's Principal, Robert L Hackenberg, serves as managing member to certain of the *Funds*, as described in Item 4 above. NEFG Principals Robert L. Hackenberg and Josh R. Laycock also serve as the managing members of NEFG Capital Partners LLC, the managing member to certain of the *Funds*. A conflict of interest exists to the extent NEFG's Supervised Persons recommend an investment in *the Funds* due to NEFG's Principals' direct and/or indirect affiliation therewith, including their ownership interest in such *Funds*. NEFG seeks to ensure that any such recommendations are provided on a fully-disclosed basis and only when aligned with its clients' bests interests.

## Item 11. Code of Ethics

NEFG has adopted a code of ethics in compliance with applicable securities laws ("*Code of Ethics*") that sets forth the standards of conduct expected of certain persons associated with the firm ("*Associated Persons*"). NEFG and its *Associated Persons* are permitted to buy or sell securities that it also recommends to clients consistent with NEFG's policies and procedures. When NEFG is purchasing or considering for purchase any security on behalf of a client, no *Covered Person* (as defined below) may effect a transaction in that security prior to the completion of the purchase or until a decision has been made not to purchase such security. Similarly, when NEFG is selling or considering the sale of any security on behalf of a client, no *Covered Person* may effect a transaction in that security prior to the completion of the sale or until a decision has been made not to sell such security.

Unless specifically defined in NEFG's procedures (summarized above), neither NEFG nor any of NEFG's *Associated Persons* may effect for himself or herself, for an *Associated Person's* immediate family (i.e., spouse, minor children, and adults living in the same household as the *Associated Person*), or for trusts for which the *Associated Person* serves as a trustee or in which the *Associated Person* has a beneficial interest (collectively "*Covered Persons*"), any transactions in a security which is being actively purchased or sold, or is being considered for purchase or sale, on behalf of any of NEFG's clients.

The foregoing policies and procedures are not applicable to (a) transactions effected in any account over which neither NEFG nor any of its *Supervised Persons* (as defined in this Form ADV) has any direct or indirect influence or control; and (b) transactions in securities that are: direct obligations of the government of the United States; bankers' acceptances, bank certificates of deposit, commercial paper, and high quality short-term debt instruments, including repurchase agreements; or shares issued by registered open-end investment companies.

This policy has been established recognizing that some securities being considered for purchase and sale on behalf of NEFG's clients trade in sufficiently broad markets to permit transactions by clients to be completed without any appreciable impact on the markets of such securities. Under certain limited circumstances, exceptions may be made to the policies stated above. NEFG will maintain records of these trades, including the reasons for any exceptions.

In accordance with Section 204A of the Advisers Act, NEFG also maintains and enforces written policies reasonably designed to prevent the unlawful use of material non-public information by NEFG or any of its *Supervised Persons*.

Clients and prospective clients may contact NEFG to request a copy of its *Code of Ethics*.

## Item 12. Brokerage Practices

As discussed above, in Item 5, NEFG generally recommends that clients utilize the brokerage and clearing services of *Schwab*.

Factors which NEFG considers in recommending *Schwab* or any other broker-dealer to clients include their respective financial strength, reputation, execution, pricing, research and service. *Schwab* enables the firm to obtain many mutual funds without transaction charges and other securities at nominal transaction charges. The commissions and/or transaction fees charged by *Schwab* may be higher or lower than those charged by other Financial Institutions.

The commissions paid by NEFG's clients to *Schwab* comply with the firm's duty to obtain "best execution." Clients may pay commissions that are higher than another qualified Financial Institution might charge to effect the same transaction where NEFG determines that the commissions are reasonable in relation to the value of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a Financial Institution's services, including among others, the value of research provided, execution capability, commission rates and responsiveness. NEFG seeks competitive rates but may not necessarily obtain the lowest possible commission rates for client transactions.

Consistent with obtaining best execution, brokerage transactions may be directed to certain broker/dealers in return for investment research products and/or services which assist NEFG in its investment decision-making process. Such research generally will be used to service all of the firm's clients, but brokerage commissions paid by one client may be used to pay for research that is not used in managing that client's portfolio. The receipt of investment research products and/or services as well as the allocation of the benefit of such investment research products and/or services poses a conflict of interest because NEFG does not have to produce or pay for the products or services.

NEFG periodically and systematically reviews its policies and procedures regarding its recommendation of Financial Institutions in light of its duty to obtain best execution.

### Software and Support Provided by Financial Institutions

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NEFG receives without cost from *Schwab* computer software and related systems support, which allow NEFG to better monitor client accounts maintained at *Schwab*. NEFG receives the software and related support without cost because the firm renders investment management services to clients that maintain assets at *Schwab*. The software and support is not provided in connection with securities transactions of clients (i.e., not "soft dollars"). The software and related systems support may benefit NEFG, but not its clients directly. In fulfilling its duties to its clients, NEFG endeavors at all times to put the interests of its clients first. Clients should be aware, however, that NEFG's receipt of economic benefits from a

broker/dealer creates a conflict of interest since these benefits may influence the firm's choice of broker/dealer over another that does not furnish similar software, systems support or services.

Specifically, NEFG may receive the following benefits from *Schwab*:

- Up to \$600 toward registration costs for *Schwab* events;
- Receipt of duplicate client confirmations and bundled duplicate statements;
- Access to a trading desk that exclusively services its institutional traders;
- Access to block trading which provides the ability to aggregate securities transactions and then allocate the appropriate shares to client accounts; and
- Access to an electronic communication network for client order entry and account information.

These services generally are available to independent investment advisors on an unsolicited basis, at no charge to them so long as a certain amount of the advisor's clients' assets are maintained in accounts at *Schwab*. *Schwab's* services include brokerage services that are related to the execution of securities transactions, custody, research, including that in the form of advice, analyses and reports, and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment.

For client accounts maintained in its custody, *Schwab* generally does not charge separately for custody services but is compensated by account holders through commissions or other transaction-related or asset-based fees for securities trades that are executed through *Schwab* or that settle into *Schwab* accounts.

*Schwab* also makes available to the Firm other products and services that benefit the Firm but may not benefit its clients' accounts. These benefits may include national, regional or Firm specific educational events organized and/or sponsored by *Schwab*. Other potential benefits may include occasional business entertainment of personnel of NEFG by *Schwab* personnel, including meals, invitations to sporting events, including golf tournaments, and other forms of entertainment, some of which may accompany educational opportunities. Other of these products and services assist NEFG in managing and administering clients' accounts. These include software and other technology (and related technological training) that provide access to client account data (such as trade confirmations and account statements), facilitate trade execution (and allocation of aggregated trade orders for multiple client accounts), provide research, pricing information and other market data, facilitate payment of the Firm's fees from its clients' accounts, and assist with back-office training and support functions, recordkeeping and client reporting. Many of these services generally may be used to service all or some substantial

number of the Firm's accounts, including accounts not maintained at *Schwab*. *Schwab* also makes available to NEFG other services intended to help the Firm manage and further develop its business enterprise. These services may include professional compliance, legal and business consulting, publications and conferences on practice management, information technology, business succession, regulatory compliance, employee benefits providers, human capital consultants, insurance and marketing. In addition, Schwab may make available, arrange and/or pay vendors for these types of services rendered to the Firm by independent third parties. *Schwab* may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third-party providing these services to the Firm. While, as a fiduciary, NEFG endeavors to act in its clients' best interests, the Firm's recommendation that clients maintain their assets in accounts at *Schwab* may be based in part on the benefits received and not solely on the nature, cost or quality of custody and brokerage services provided by *Schwab*, which creates a potential conflict of interest.

### **Brokerage for Client Referrals**

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NEFG does not consider, in selecting or recommending broker/dealers, whether the firm receives client referrals from the Financial Institutions or other third party.

### **Directed Brokerage**

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The client can direct NEFG in writing to use a particular Financial Institution to execute some or all transactions for the client. In that case, the client will negotiate terms and arrangements for the account with that Financial Institution and the firm will not seek better execution services or prices from other Financial Institutions or be able to "batch" client transactions for execution through other Financial Institutions with orders for other accounts managed by NEFG (as described above). As a result, the client may pay higher commissions or other transaction costs, greater spreads or may receive less favorable net prices, on transactions for the account than would otherwise be the case. Subject to its duty of best execution, NEFG may decline a client's request to direct brokerage if, in the firm's sole discretion, such directed brokerage arrangements would result in additional operational difficulties.

### **Trade Aggregation**

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Transactions for each client generally will be effected independently, unless NEFG decides to purchase or sell the same securities for several clients at approximately the same time. NEFG may (but is not obligated to) combine or "batch" such orders to obtain best execution, to negotiate more favorable commission rates or to allocate equitably among the firm's clients differences in prices and commissions or other transaction costs that might not have been obtained had such orders been placed independently. Under this procedure, transactions will generally be averaged as to price and allocated among NEFG's



clients pro rata to the purchase and sale orders placed for each client on any given day. To the extent that the firm determines to aggregate client orders for the purchase or sale of securities, including securities in which NEFG's Supervised Persons may invest, the firm does so in accordance with applicable rules promulgated under the Advisers Act and no-action guidance provided by the staff of the U.S. Securities and Exchange Commission. NEFG does not receive any additional compensation or remuneration as a result of the aggregation.

In the event that the firm determines that a prorated allocation is not appropriate under the particular circumstances, the allocation will be made based upon other relevant factors, which may include: (i) when only a small percentage of the order is executed, shares may be allocated to the account with the smallest order or the smallest position or to an account that is out of line with respect to security or sector weightings relative to other portfolios, with similar mandates; (ii) allocations may be given to one account when such account has limitations in its investment guidelines which prohibit it from purchasing other securities which are expected to produce similar investment results and can be purchased by other accounts; (iii) if an account reaches an investment guideline limit and cannot participate in an allocation, shares may be reallocated to other accounts (this may be due to unforeseen changes in an account's assets after an order is placed); (iv) with respect to sale allocations, allocations may be given to accounts low in cash; (v) in cases when a pro rata allocation of a potential execution would result in a *de minimis* allocation in one or more accounts, the firm may exclude the account(s) from the allocation; the transactions may be executed on a pro rata basis among the remaining accounts; or (vi) in cases where a small proportion of an order is executed in all accounts, shares may be allocated to one or more accounts on a random basis.

## Item 13. Review of Accounts

### Account Reviews

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For those clients to whom NEFG provides investment management services, NEFG monitors those portfolios as part of an ongoing process while regular account reviews are conducted on at least a quarterly basis. For those clients to whom NEFG provides financial planning and/or consulting services, reviews are conducted on an “as needed” basis. Such reviews are conducted by one or more of the Principals of the firm, Robert L Hackenberg, Jr and/or Josh R. Laychock. All investment advisory clients are encouraged to discuss their needs, goals, and objectives with NEFG and to keep NEFG informed of any changes thereto. NEFG contacts ongoing investment advisory clients at least annually to review its previous services and/or recommendations and to discuss the impact resulting from any changes in the client’s financial situation and/or investment objectives.

### Account Statements and General Reports

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Unless otherwise agreed upon, clients are provided with transaction confirmation notices and regular summary account statements directly from the broker-dealer or custodian for the client accounts. Those clients to whom NEFG provides investment advisory services also receive reports from NEFG that may include such relevant account and/or market-related information, such as an inventory of account holdings and account performance. Such reports are furnished on a semi-annual basis to clients with assets under management in excess of \$1,000,000 and not less than annually to all other clients. Clients should compare the account statements they receive from their custodian with those they receive from NEFG.

### Financial Planning and Consulting Reports

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Those clients to whom NEFG provides financial planning and/or consulting services will receive reports from NEFG summarizing its analysis and conclusions as requested by the client or otherwise agreed to in writing by NEFG.

## Item 14. Client Referrals and Other Compensation

### Client Referrals

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In the event a client is introduced to NEFG by either an unaffiliated or an affiliated solicitor, the Firm may pay that solicitor a referral fee in accordance with applicable state securities laws. Unless otherwise disclosed, any such referral fee is paid solely from NEFG's investment management fee and does not result in any additional charge to the client. If the client is introduced to the Firm by an unaffiliated solicitor, the client will receive a solicitor's disclosure statement containing the terms and conditions of the solicitation arrangement. Any affiliated solicitor of NEFG is required to disclose the nature of his or her relationship to prospective clients at the time of the solicitation and will provide all prospective clients with a copy of the Firm's written brochure(s) at the time of the solicitation.

### Other Compensation

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NEFG receives economic benefits from *Schwab*. The benefits, conflicts of interest and how they are addressed are discussed above in response to Item 12.

## Item 15. Custody

NEFG is deemed to have custody over a client's assets when it is authorized to directly debit a client's account for payment of the firm's quarterly management fee. In accordance with applicable custody rules, the *Financial Institutions* that serve as qualified custodians for NEFG's client accounts have agreed to send statements to clients, not less than quarterly, indicating all amounts paid to NEFG. As stated in Item 5, the firm also sends to clients a duplicate fee invoice, detailing the amounts deducted for payment of the quarterly management fee, where required under applicable state securities laws.

NEFG may also send periodic reports to clients, as discussed in Item 13. Clients are advised to carefully review the statements and confirmations sent directly by the *Financial Institutions* and to compare them with any reports received from NEFG.

### **Surprise Examination of Client Assets Invested in Affiliated Pooled Investment Vehicles**

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Due to NEFG's Principals affiliation with the *Funds*, the firm is deemed to have custody of client assets. As such, NEFG engages an independent accounting firm to perform a surprise annual examination of those assets and accounts over which it maintains custody due to its Principal's affiliation with the *Funds*. Any related opinions issued by an independent accounting firm are filed with the SEC and are publicly available on the SEC's Investment Adviser Public Disclosure website.

### **Standing Letters of Authorization**

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NEFG also anticipates has custody due to clients giving the Firm limited power of attorney in a standing letter of authorization ("SLOA") to disburse funds to one or more third parties as specifically designated by the client. In such circumstances, the Firm will implement the steps in the SEC's no-action letter on February 21, 2017 which includes (in summary): i) client will provide instruction for the SLOA to the custodian; ii) client will authorize the Firm to direct transfers to the specific third party; iii) the custodian will perform appropriate verification of the instruction and provide a transfer of funds notice to the client promptly after each transfer; iv) the client will have the ability to terminate or change the instruction; v) the Firm will have no authority or ability to designate or change the identity or any information about the third party; vi) the Firm will keep records showing that the third party is not a related party of the Firm or located at the same address as the Firm; and vii) the custodian will send the client an initial and annual notice confirming the SLOA instructions.

### Item 16. Investment Discretion

In some circumstances, NEFG is given the authority to exercise discretion on behalf of clients. NEFG is considered to exercise investment discretion over a client's account if it can effect transactions for the client without first having to seek the client's consent. NEFG is given this authority through a power-of-attorney included in the agreement between NEFG and the client. Clients may request a limitation on this authority (such as certain securities not to be bought or sold). NEFG takes discretion over the following activities:

- The securities to be purchased or sold;
- The amount of securities to be purchased or sold;
- When transactions are made; and
- The *Independent Managers* to be hired or fired.

## Item 17. Voting Client Securities

Where given the authority to do so, NEFG votes client securities (proxies) on behalf of its clients. When NEFG accepts such responsibility, it will only cast proxy votes in a manner consistent with the best interest of its clients. Absent special circumstances, which are fully- described in NEFG's Proxy Voting Policies and Procedures, all proxies will be voted consistent with guidelines established and described in NEFG's Proxy Voting Policies and Procedures, as they may be amended from time to time. Clients may contact NEFG to request information about how NEFG voted proxies for that client's securities or to get a copy of NEFG's Proxy Voting Policies and Procedures. A brief summary of NEFG's Proxy Voting Policies and Procedures is as follows:

- NEFG has formed a Proxy Voting Committee that will be responsible for monitoring corporate actions, making voting decisions in the best interest of clients, and ensuring that proxies are submitted in a timely manner.
- The Proxy Voting Committee will generally vote proxies according to NEFG's then current Proxy Voting Guidelines. The Proxy Voting Guidelines include many specific examples of voting decisions for the types of proposals that are most frequently presented, including: composition of the board of directors; approval of independent auditors; management and director compensation; anti-takeover mechanisms and related issues; changes to capital structure; corporate and social policy issues; and issues involving mutual funds.
- Although the Proxy Voting Guidelines are followed as a general policy, certain issues are considered on a case-by-case basis based on the relevant facts and circumstances. Since corporate governance issues are diverse and continually evolving, NEFG devotes an appropriate amount of time and resources to monitor these changes.
- Clients cannot direct NEFG's vote on a particular solicitation but can revoke NEFG's authority to vote proxies.

In situations where there may be a conflict of interest in the voting of proxies due to business or personal relationships that NEFG maintains with persons having an interest in the outcome of certain votes, NEFG takes appropriate steps to ensure that its proxy voting decisions are made in the best interest of its clients and are not the product of such conflict.

## Item 18. Financial Information

NEFG is not required to disclose any financial information pursuant to this Item due to the following:

- The firm does not require or solicit the prepayment of more than \$1,200 in fees six months or more in advance;
- The firm does not have a financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients; and
- The firm has not been the subject of a bankruptcy petition at any time during the past ten years.

## **NORTHEAST FINANCIAL GROUP, INC.**

*a Registered Investment Adviser*

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Prepared by:



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