

# **Thoroughbred Financial Services, LLC**

## **Investment Advisory Brochure**

This brochure provides information about the qualifications and business practices of Thoroughbred Financial Services, LLC. If you have any questions about the contents of this brochure, please contact us at (615) 371-0001 or (888)-833-0233. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or any state securities authority. Additional information about Thoroughbred Financial Services, LLC, also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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## **Item 2 - Material Changes**

### Section 18 – Financial Information.

In April 2020 Thoroughbred Financial Services, LLC (TFS) received a Paycheck Protection Plan (“PPP”) Loan through the Small Business Administration (SBA) in conjunction with the relief afforded from the CARES Act during the COVID-19 Pandemic. The firm determined, at the time of its application for the loan, that the results of COVID-19, including the many “shelter in place” orders, and the severe volatility in the financial markets, would result in a marked decrease in revenue. Without the PPP loan of \$552,600 and with prospect ongoing market declines TFS would have to consider salary reductions and ultimately staff layoffs.

As described in the program requirements, the loan provided to TFS is to be used to support the firm’s payroll expenses and other expense items as allowed under the parameters of the program. If the requirements of the program are met, the loan would be forgiven by the SBA. If the PPP loan proceeds are used in any manner other than as allowed under the program, then the loan will convert to a standard loan which would require the firm to repay the loan proceeds in accordance with the firm’s agreement with the lending financial institution. At this time the firm has not suffered an interruption of service but we will update our brochure with any material changes in the company’s financial or operational status.

Date of Last Annual Amendment: the last annual amendment that included material changes was made on January 16, 2019 the last other than annual amendment, that included material changes, was on May 20, 2020.

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#### **Item 4 Advisory Business**

A. **Description of Advisory Firm**

Thoroughbred Financial Services, LLC (TFS), was formed in 1999 and has its main office in Brentwood, TN. It has other offices in Jackson, Knoxville and Columbia, TN. The Parker Family Trust is the principal owner of TFS, holding 50.5% of the membership interests. The Parker Family Trust holds its interests for the benefit of the children of Thomas Jenkins Parker, the president of TFS. Susan S. Parker, the wife of Thomas Jenkins Parker, trustees the Parker Family Trust. TFS is registered as both an investment adviser and a broker-dealer with the Securities and Exchange Commission. Please note, however, that being registered does not imply a certain level of skill or training.

B. **Types of Services Offered**

TFS provides clients with investment supervisory services on both a discretionary and nondiscretionary basis. TFS can design an investment management program using mutual funds, individual stock and bond issues, money market investments, and certificates of deposit, as well as specially structured investments. TFS offers the discretionary and nondiscretionary programs through both the Thoroughbred account and the Cambridge account. TFS can also make advisory recommendations for a portfolio of mutual funds held directly by an investment company, accounts held at a custodian other than its clearing broker-dealer (National Financial Services, LLC), and variable annuity investments (the Identified Portfolio account under Item 5, below). Also, the Bond-Timing account invests in high-yield bond mutual funds according to the timing signals of BTS Asset Management, Inc. Further, TFS will evaluate the performance of outside money managers selected by the client (The Identified Manager account under Item 5, below). In such a case, the outside money manager will select on a discretionary basis the assets held in the client's account and TFS will only evaluate the performance of the manager. TFS will base its evaluation upon results achieved and adherence to the investment style for which the client selected the manager. On an occasional basis, TFS will prepare a comprehensive financial plan for the client for a fee. The plan will address income tax, estate tax, investment planning and retirement planning considerations. Additionally, TFS can offer access to money management services through Envestnet Asset Management, Inc., and their Managed Account Solution Program. Envestnet is a comprehensive program that provides independent portfolio managers, brokerage and custodial services, and quarterly reporting all through their platform. Finally, under the TFS Investment Advisory Retirement Option Plan (e.g., Vanguard/Ascensus), TFS provides to retirement plans services regarding plan design selection, plan investment option selection, participant education, and periodic reviews.

C. **Meeting the Individual Needs of Clients**

TFS tailors its advisory services to the individual needs of the clients. TFS will use client data forms and personal meetings with the clients to determine the particular client's investment objectives and risk tolerances. TFS then designs an investment portfolio to meet the specific objectives of the client while assuming a level of risk with which the client is comfortable. The client is always able to impose restrictions on investing in certain securities or types of securities in the client's account.

D. **Wrap Fee Programs**

TFS sponsors certain wrap-fee programs which provide discretionary investment advisory services to clients through outside money managers. For these wrap accounts, TFS charges an asset-based fee that includes charges for the services of both TFS and the outside money manager, as well as the cost of executing trades for the account. TFS manages these accounts in a manner similar to other accounts managed by outside money managers which are not wrap accounts. For both types of accounts, TFS evaluates the performance of the outside managers for the client. The only real difference between the wrap-fee program and a non-wrap account using an outside money manager is the method of charging for trades. Depending upon the

frequency of trading by the money manager, a client may or may not be better off by paying a combined (wrap) fee for management and transactions.

E. Amount of Assets Under Management

As of March 6, 2020, TFS managed \$449.4 million on a nondiscretionary basis and \$1.58 billion on a discretionary basis.

**Item 5 Fees and Compensation**

A. Fees Charged by TFS

In most instances, the client compensates TFS for its investment supervisory services by paying an advisory fee. Our representatives have discretion, within guidelines imposed by TFS, to establish their own range of advisory fees. Generally, the advisory fee is based on account size, but the TFS representative will also consider the type of securities to be held in the account (e.g., mutual fund versus individual securities), the complexity and mix of the portfolio, the frequency and extent of reporting, and the number and range of supplementary advisory and client-related services to be provided to the account. The client may negotiate the fee, and when doing so, should consider the level and complexity of the advisory services to be provided by TFS.

While the asset-based fee account accommodates a more active level of investment management than traditional commissioned-based brokerage accounts, it should be noted the asset-based fee account might be more expensive than the commission-based brokerage account over time, depending upon actual experience. The client should also be aware that the client may be able to purchase investment products available under the TFS programs (as well as products not available through TFS) at a lower cost through broker-dealers or other investment firms not affiliated with TFS.

In the case of a fee charged for the preparation of a comprehensive financial plan, the representative preparing the plan will quote in advance a fee based upon the representative's estimate of the time and effort involved in the plan preparation.

The following table lists the advisory fees for TFS's various asset management services. These fees are negotiable.

<b><i>Program</i></b>	<b><i>Account Minimum, if any</i></b>	<b><i>Account Maximum, if any</i></b>	<b><i>Fee Charged</i></b>
Vanguard/Ascensus	N/A	N/A	1% on all amounts
Thoroughbred Program (discretionary or nondiscretionary)	N/A	N/A	1.75% on the first \$1,000,000 of assets 1.25% on amounts in excess of \$1,000,000
Bond-Timing	N/A	N/A	1.75% on account sizes up to \$500,000 1.50% on accounts between \$500,000 and \$1 million 1.15% on accounts between \$1 million and \$5 million Fee negotiated for accounts over \$5 million
Cambridge Account (discretionary or nondiscretionary)	N/A	N/A	1.75% on the first \$1,000,000 of assets 1.25% on amounts in excess of \$1,500,000

Identified Portfolio	N/A	N/A	Never more than 2.00% of the account
Identified Manager	N/A	N/A	Never more than 2.00% of the account
Investnet	\$100,000	N/A	Never more than 2.50% of the account
Identified Portfolio (account data not available in electronic format) *	N/A	N/A	1.25% on the first \$1,500,000 of assets 1.00% on the amounts in excess of \$1,500,000
Thoroughbred Program (Small Account) *	N/A	\$100,000	1.25% on the first \$50,000 1.00% on amounts in excess of \$50,000

\*See Item 13 for additional information.

For Wrap accounts: See Appendix 1 to this brochure.

For the preparation of a comprehensive financial plan: TFS will quote a fee before the work begins, but it will not exceed \$10,000 except in extraordinary situations. TFS charges a minimum fee of \$500 for advisory clients of this type and the fee is not subject to negotiation. The client must pay the financial planning fee in full within thirty days of the presentation of a complex financial plan. However, the client may refuse to pay the financial planning fee or demand a full refund of the financial planning fee already paid, if the client believes the services rendered were not worthwhile.

#### B. Fee Payment

In most situations, TFS will deduct advisory fees from the clients' accounts on a monthly basis. If TFS charges a fee for advisory services provided for a client's annuity contract, the client will be billed either monthly or quarterly, and by TFS or the insurance company, as agreed to in the investment advisory contract with the client. Further, if TFS charges a fee for advisory services provided in connection with a portfolio of mutual funds held directly by the investment company or a portfolio of securities held by a custodian other than National Financial Services, LLC, or if the fee is for the evaluation of an outside money manager, TFS will bill the client quarterly. Regarding fees paid for the preparation of a comprehensive financial plan, see 5A, above.

#### C. Other Fees and Expenses

Clients may pay transaction-based charges such as ticket charges to either TFS or its clearing broker-dealer, National Financial Services ("NFS"). These charges are not shared with TFS representatives. Clients will also pay expenses charged by mutual funds, which include fees for fund administration and management, and also may include in some situations 12b-1 fees, sub-agent transfer fees, and similar fees. Clients may also pay TFS postage and handling expenses in connection with confirmations and statements. TFS may charge sales loads or commissions on certain transactions. Please see subsection E in this Item 5 and Item 12 below for additional information.

For Thoroughbred and Cambridge accounts, TFS will recommend mutual funds which do not pay up front "sales loads," commonly referred to as "commissions," to TFS. Typically, neither TFS nor NFS will charge the client ticket charges or other transaction charges for the execution of A share mutual fund trades in these accounts. Accounts with institutional (I) shares may be charged ticket charges on those I share funds, depending upon the management fee negotiated. "Clean" shares or other share classes that do not pay a record keeping fee to NFS will be assessed a ticket charge.

Clients with margined accounts will pay interest to NFS and, in some instances, a portion of the interest charged will be paid to TFS. Additionally, TFS and NFS will charge clients brokerage and other transaction costs, including postage, handling, exchange fees and other charges imposed by law, for nonmutual fund securities transactions in these accounts. Further, clients will incur brokerage and other transaction costs in connection with accounts managed by outside money managers evaluated by TFS, as well as identified portfolios of mutual funds held directly at the investment companies or identified portfolios of nonmutual fund securities. If a brokerage account holds American Depositary Receipts (ADRs), the custodian might charge the account with "pass through" ADR fees, or the fees could be withheld from dividend amounts paid by the issuer, all as described in the ADR prospectuses. For further discussion of brokerage, please see

Item 12, below. Also, the client should be aware that mutual funds charge their own internal brokerage and other expenses which they subtract from the mutual fund itself. Finally, the mutual funds pay investment advisors that manage the mutual funds. The mutual funds pay these investment advisory fees from the mutual fund. And, in certain circumstances outlined in the mutual fund prospectus, some investment companies will impose fees on the redemption or repurchase of mutual fund shares. Generally, these fees are intended to discourage short-term trading.

D. Advisory Fee Refunds

For most advisory arrangements, TFS deducts management fees from the accounts in advance. For other arrangements, TFS bills the clients in advance. TFS will automatically refund the entire prepaid fee if the client terminates the account within five business day of opening the account. In instances when the client maintains the account for more than five business days prior to termination, TFS automatically refunds the portion of the fee attributable to the remainder of the prepaid billing period. TFS calculates the refund by multiplying the prepaid fee times a fraction based on the number of days remaining in the billing period following termination compared to the total number of days in the billing period. For example, if the client terminates the advisory contract with three days left in a thirty-day billing period, TFS would return 1/10 (or 10%) of the prepaid fee.

E. Commissions, 12b-1 Fees, Revenue Sharing and Conflicts

Mutual funds generally offer multiple share classes available for investment based upon certain eligibility and/or purchase requirements. For instance, in addition to the more commonly offered retail share classes (typically, Class A and C shares), mutual funds may also offer institutional shares classes and other share classes that are specifically designed for purchase in an account enrolled in fee-based investment advisory programs.

Mutual fund expenses are usually quantified using an “expense ratio.” The expense ratio is the sum of all expenses of the fund (which usually include fund administrative, management, marketing and other expenses), divided by the total value of the fund. If a funds pays a “sales load,” commonly referred to as a commission, that load is also an expense of the fund and will be reflected in the expense ratio. The payment by the fund of the expenses that comprise the expense ratio will adversely impact the performance of the fund.

If a fund is offered through multiple share classes, each class of shares has a different expense ratio. Institutional share classes or classes of shares designed for purchase in an investment advisory program usually have a lower expense ratio than other shares classes primarily due to the absence of 12b-1 fees, which are a form of marketing expenses. Clients should not assume that they will be invested in the share class with the lowest possible expense ratio.

If a mutual fund that pays 12b-1 fees is acquired in a portion of a managed account subject to a fee, the amount of any 12b-1 fees that would ordinarily be paid to TFS or any of its representatives will be credited to the client’s account. Client should be aware that 12b-1 fees paid to an account custodian, and not TFS or its representatives, will not be credited to the client’s account.

TFS anticipates that it will be authorized to offer and recommend to its clients so-called “clean shares” of mutual funds. Clean shares do not pay a sales load, 12b-1 fees, record keeping fees, or sub-transfer agent fees. We may recommend clean shares to our clients, and clients who purchase clean shares will be assessed ticket charges in connection with such transactions.

If TFS manages a portfolio of individual (non-mutual fund) securities for the client, the client will generally pay ticket charges on the acquisition of these securities. If the client acquires the securities in such an arrangement through a TFS account at NFS, TFS will receive a ticket charge and other transaction costs, including postage, handling, exchange fees and other charges imposed by law. TFS will keep the postage and handling charges it collects. Ticket charges and other transaction costs are passed through to NFS.



As mentioned above, the client may negotiate the level of fee paid to TFS for advisory services. When negotiating the compensation to be paid to TFS, the client should be aware of all of the charges that factor into the true cost of the advisory account. Thus, the client should evaluate both the advisory fee, and whether transaction fees are anticipated. Further, the internal costs of the mutual funds can vary.

From time to time, mutual fund distributors and/or advisors will reimburse TFS for expenses we incur in connection with certain training and educational meetings, conferences or seminars. Also, in the ordinary course of business, our representatives may receive promotional items, meals or entertainment, or other similar “non cash” compensation from distributors with whom we do business.

With regard to the client’s purchase of individual (non-mutual fund) securities, TFS assesses a ticket charge (unless it is a wrap arrangement) if the client purchases the securities through TFS as broker-dealer (with NFS as the clearing broker). Again, clients may elect to purchase securities through other brokers or agents not affiliated with TFS. In some instances, when TFS evaluates the performance of an outside money manager for the client, the money manager may purchase some of the securities through TFS as broker-dealer. In those situations, the client would not be able to choose the broker-dealer for those particular transactions, and TFS might have an incentive to recommend an outside manager that would execute transactions through TFS. TFS discloses in its advisory agreements and this brochure the fact that the outside money managers might execute transactions through TFS.

#### **Item 6 Performance Based Fees**

Not Applicable

#### **Item 7 Types of Client**

TFS generally provides investment advice to individuals, trusts, estates, charitable organizations, corporations, partnerships, limited liability companies, pensions and profit-sharing plans. With regard to the regular Thoroughbred Program and the Envestnet Program, there is a \$100,000 minimum account size. For the small account Thoroughbred Program, there is a \$200,000 maximum initial account size.

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

- A. Client objectives ultimately drive investment analysis and strategic portfolio management. Asset allocation is the primary determinant of risk and return. Sector allocation within broad asset classes is the next most important consideration. Finally, TFS carefully weighs the management of each sector. TFS also gives consideration to the investment time frame for each portfolio. Short-term portfolios generally have a lower risk/lower return profile while longer-term portfolios usually have a higher risk/higher potential return profile.

We think diversification helps with risk management, and TFS balances risk against the potential return of individual holdings as well as a client’s portfolio as a whole. TFS prepares our clients for the reality that where there is a return potential over and above a riskless return, there is always corresponding risk. Investing in securities involves risk of loss that clients should be prepared to bear at some point during their investment time horizon. TFS uses asset allocation and outside managers that employ both tactical and strategic management techniques to try to manage risk in a portfolio while still producing the potential for returns that address a client’s objectives. While we emphasize managers that use fundamental analysis

techniques such as earnings growth, price to book value ratios, cash flow, and balance sheet strength, statistical analysis and relative performance are important factors that TFS considers. TFS utilizes Morningstar Analytics, Standard and Poor's research, information received directly from the managers themselves, and other news and industry sources for additional input before making a specific portfolio recommendation.

- B. Of course, any investment strategy involves risks. Market based investments such as stocks have both trading risks and fundamental risks. Both a company's own financial condition as well as the overall market atmosphere can impact the stock price on a day to day basis.

International equities and fixed income involve additional uncertainties due to fluctuation in currencies and country specific risks. However, these investment categories offer the potential for higher returns.

Fixed income securities have their own risk/return profile. Depending upon the quality and type of fixed income security, their addition to a portfolio generally lessens risk exposure compared to an all equity portfolio.

TFS tries to provide recommendations on a portfolio with a risk/return profile that meets the client's objectives. The TFS portfolio typically includes a diversified portfolio of equities, both US and International and balanced across a broad market capitalization, combined with fixed income, again both U.S. and International. The balance of these categories is adjusted for the particular client. From time to time, we will also recommend additional specific sectors that enhance the portfolio's potential. Throughout the entire planning process, however, the client should remember that past performance does not guarantee future results. Thus, while TFS may design investment strategies in order to reduce risk and increase the chance of gains, TFS relies on historic patterns of investment performance. As a result, TFS investment strategies might not perform as expected if future performance differs from historical patterns.

- C. TFS primarily uses mutual funds as the investment vehicle for client accounts. We employ individual bonds or stocks to a lesser extent. Because they are no more than a bracket of marketable securities, mutual funds generally trade in concert with the market as a whole. Our strategies generally do not include rapid trading or other high-risk types of strategies.

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

On December 21<sup>st</sup>, 2018 TFS entered into a settlement ("Order") with the Securities and Exchange Commission (SEC). Without admitting or denying the findings, TFS and certain of its representatives consented to the Order which included the following summary: "These proceedings arose from breaches of fiduciary duty and inadequate disclosures by TFS, a registered investment adviser and broker-dealer, Thomas J. Parker and L. Randall Hartley in connection with their mutual fund share class selection practices, as well as misleading statements and omissions they made upon revising TFS's practices after a Commission examination. Between at least October 2012 and August 2016 (the "Relevant Period"), Respondents invested, recommended or held certain advisory client assets in mutual fund share classes that paid fees pursuant to Rule 12b-1 under the Investment Company Act of 1940 ("12b-1 fees") instead of available, lower-cost share classes of the same funds without 12b-1 fees. TFS (as a broker-dealer) and Parker and Hartley (as TFS registered representatives) received the 12b-1 fees based on these investments. These practices created a conflict of interest, were contrary to Respondents' disclosures regarding TFS's Code of Ethics, and were not disclosed adequately to firm clients in TFS's Forms ADV or otherwise. Respondents also breached their duty to seek best execution for their clients by investing them in mutual fund share classes with 12b-1 fees rather than lower-cost share classes of the same funds. Moreover, by choosing higher-cost share classes for firm clients, TFS, in some client transactions, avoided paying certain mutual fund transaction clearance, or "ticket," charges that TFS otherwise would have paid. During the Relevant Period, TFS failed to adopt and implement written policies and procedures reasonably designed to prevent violations of the Advisers Act and the rules thereunder in connection

with its mutual fund share class selection practices. Finally, in the process of converting clients to lower-cost share classes after receiving a Commission examination deficiency letter in April 2016, various firm Investment Advisor Representatives (“IARs”), including Parker and Hartley, made misleading statements and omissions to clients about the prior costs and availability of lower-cost share classes, while at the same time asking many of the same clients to agree to higher account management fees, which nearly all clients accepted. By virtue of this conduct, TFS, Parker, and Hartley willfully violated Section 206(2) of the Advisers Act, and TFS also willfully violated Sections 206(4) and 207 of the Advisers Act and Rule 206(4)-7 thereunder.” (Note, a violation of Section 206(2) may rest on a finding of simple negligence.) The order requires the respondents to pay to affected clients disgorgement, prejudgment interest and civil penalties totaling \$1,679,241.88 as follows: TFS was ordered to pay disgorgement of \$740,250.20, prejudgment interest of \$108,368.10, and a civil penalty of \$260,000. Parker was ordered to pay disgorgement of \$217,883.16, prejudgment interest of \$31,750.80, and a civil penalty of \$75,000. Hartley was ordered to pay disgorgement of \$158,032.42, prejudgment interest of \$22,957.20, and a civil penalty of \$65,000.

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

A. **Broker-Dealer and Registered Representative Status**

In addition to being a registered investment adviser, TFS is registered as a broker-dealer. Further, the President, Executive Vice-President (Securities) and Vice-President (Operations) are all registered representatives of TFS.

B. **Insurance Agency**

Some representatives and other employees of TFS are agents of various life, health, and disability insurance companies. These individuals are able to effect insurance recommendations if the client elects to have insurance recommendations implemented. These individuals receive separate and typical compensation for insurance and/or annuity implementation. TFS is also a licensed insurance agency and can receive commissions in connection with the sale of insurance products by TFS employees who are licensed to sell these products. You are not obligated to use any of these individuals or TFS for insurance product purchases. You are free to use any insurance agent or agency you choose.

C. **Related Persons**

1. **Employee Benefit Services, Inc. (EBS)**, is a company that supplies employee benefit consulting and administrative services. Many EBS clients and/or their businesses are also TFS clients. Thomas J. Parker, the President of TFS, owns EBS indirectly. TFS will often recommend the services of EBS to TFS clients and/or their businesses. Because Mr. Parker owns EBS, he may profit from the clients’ use of EBS. TFS recommends the services of EBS because of:

- the quality of the services provided by EBS
- the competitive pricing of EBS’s services
- the efficiencies achieved when the TFS representative servicing the account of the client assists the client in providing plan data to EBS

EBS discloses the relationship of TFS and EBS to the client and the client is always free to make arrangements with a different company for pension consulting and plan administrative services. EBS receives compensation for services provided pursuant to a servicing agreement between the client and EBS.

2. **Diversified Partners, Inc. (DPI)**, is a registered investment adviser. Thomas Jenkins Parker owns 100% of DPI. DPI serves as the general partner of several investment limited partnerships. TFS recommends that some of its clients purchase limited partnership interests in the DPI investment partnerships. DPI pays TFS a continuing sales commission for investments in the DPI partnerships purchased by TFS clients. The DPI partnerships allocate the funds raised among several money managers selected by DPI. The money managers then invest the funds in a portfolio of securities. TFS does not serve as an investment advisor for the DPI partnerships. Most, if not all, of the DPI partnership money managers

execute their portfolio trades through TFS and its clearing broker, NFS. As a result, TFS receives sales commissions for partnership trades, which are in addition to commissions for sale of the limited partnership interests. TFS does not receive any investment advisory fees in connection with its clients' investments in the DPI partnerships. DPI, as general partner of the partnerships, receives a 1% interest in all items of the DPI partnerships' income, deduction, gain and loss. Because of his ownership of DPI, Mr. Parker has a conflict of interest when recommending a buy or hold of DPI to his clients.

D. Other (Unrelated) Investment Advisers

TFS may recommend an unrelated advisor (money manager) to its clients under a wrap fee arrangement (please see Appendix 1 to this brochure) or a nonwrap program arrangement. (Under the wrap fee arrangement, the client will pay TFS a wrap fee to monitor the performance of the money manager, compensate the money manager, and cover the cost of executing portfolio transactions.) Some of the money managers may execute portfolio transactions under the wrap or other arrangements through TFS and its clearing broker, NFS. If the money manager executes wrap or other transactions through TFS, TFS may retain more of the fees paid by the client than would be the case if the money manager executed the trades through another broker. TFS may have a financial incentive to recommend to clients advisers that will execute transactions for the client through TFS. This financial incentive creates a conflict of interest when TFS determines its recommendations of advisers that meet the needs of the client. TFS discloses in its wrap fee and other agreements that, depending upon the circumstances, it may have a financial incentive to recommend a wrap or other portfolio management arrangement to a client over some other arrangement. TFS believes that the support and services offered to clients executing transactions through TFS outweigh any potential cost savings available under alternative brokerage arrangements.

In addition, there are situations (both wrap and nonwrap) where TFS hires the outside money manager as a subadvisor. TFS pays the subadvisor out of the advisory fee paid to TFS. In these circumstances, TFS has a financial incentive to recommend a money manager that charges TFS a lower fee than another manager would. This creates a conflict of interest when TFS recommends an unrelated adviser to meet a client's needs. TFS discloses the nature of the advisor – subadvisor relationship and the advisory compensation structure in its wrap and advisory agreements.

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

- A. Code of Ethics: Rule 204 A-1 under the Investment Advisers Act of 1940 requires all investment advisers registered with the Securities and Exchange Commission to adopt a code of ethics. TFS has adopted such a code of ethics. The TFS Code of Ethics reflects fiduciary principles that govern the conduct of TFS and its employees. TFS implemented the Code to protect the interests of TFS clients. The Code consists of an outline of policies in several important areas:

- Standards of conduct and compliance with laws, rules and regulations
- Protection of material non-public information
- Personal securities trading

In general, no TFS employee may prefer his or her own interest to the interests of TFS clients. TFS employees may not trade for a personal or family account if the employee bases the trading decision upon information the employee obtained by reason of his or her employment, unless the information is also available to the trading public. All employees must identify their personal investment accounts to the TFS compliance officer. TFS will provide a copy of its Code of Ethics to any client or prospective client upon request.

B. Participation or Interest in Client Transactions

Thomas J. Parker is President of TFS. Mr. Parker is the sole owner of Diversified Partners, Inc. (DPI), an investment adviser registered with the SEC. DPI serves as the general partner of three investment partnerships. TFS recommends to its clients that they purchase investment limited partnership interests in the DPI partnerships. Please see Item 10B.2., above, for additional information.

C. Personal Trading

TFS advisory representatives occasionally invest in the same securities (generally mutual funds) as those recommended to a client or purchased for a client. The TFS Code of Ethics guides the representative in these transactions. Please see 11.A., above.

D. Personal Trading at the Same Time as Client Trading

In cases when a TFS employee intends to purchase or sell individual securities for his or her own benefit at or about the same time as the same securities will be bought or sold for client accounts, TFS requires that the trades be “blocked” together to insure that all parties receive the same execution price.

## **Item 12 Brokerage Practices**

A. Recommending a Broker-Dealer

In addition to being an investment adviser, TFS is a registered broker-dealer. TFS clears its trades through National Financial Services, LLC, its correspondent broker. TFS does not receive soft dollar benefits from NFS.

For its Thoroughbred, Cambridge and BTS programs, TFS recommends itself as broker-dealer. At times, TFS will provide services to assist a client in monitoring and evaluating the performance of a subadvisor recommended by TFS and selected by the client. In some of these situations, TFS will recommend itself as the broker-dealer to execute trades for the account. If the client uses TFS as the broker-dealer, the client may pay rates that are not as favorable as those available through other brokerage firms. This could cost the client more money. In all these situations, TFS recommends itself because of:

- its reasonable commission schedule, transaction costs and custodial costs
- the ease of execution for its clients
- the quality of the services provided to the client

TFS has a financial incentive to recommend itself as broker where possible. Directed brokerage arrangements are generally not permitted.

In certain limited instances TFS will manage a qualified retirement plan account custodied at Charles Schwab and Company (Schwab) where the plan trustee specifically mandates all participant assets are held in custody with Schwab. In these cases, Schwab is acting as executing broker-dealer and custodian of client assets. For our clients’ accounts that Schwab maintains, Schwab generally does not charge you separately for custody services but is compensated by charging you commissions or other fees on trades that it executes or that settle into your Schwab account. [For some accounts, Schwab may charge you a percentage of the dollar amount of assets in the account in lieu of commissions.]

B. Aggregation of Client Orders

Generally, client portfolios are made up mostly of mutual funds. At times, TFS makes recommendations on the purchase or sale of individual securities positions. In cases where a TFS representative is exercising discretionary authority to purchase or sell individual securities positions for multiple clients of the representative in the same day, TFS will aggregate the purchase or sale of the securities for the clients. When TFS aggregates its orders for client accounts, TFS can assure each client will receive the same pricing. However, TFS does not normally purchase or sell individual securities in amounts large enough that aggregate orders would produce lower overall transaction costs.

With regard to wrap accounts (see Appendix 1), outside money managers serve as subadvisor and have discretionary trading authority. When they make changes to the holdings of our clients' wrap accounts, they will normally aggregate or block trade client orders to assure a fair price is obtained for all of the clients.

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

TFS conducts a review of a client's entire financial program with TFS at least annually. In addition, TFS conducts reviews as necessary based upon changes in the client's personal objectives, economic conditions or the tax laws.

In cases where TFS monitors the performance of a subadvisor selected by the client, TFS conducts a review at least quarterly. With respect to Thoroughbred Program accounts, Cambridge accounts, and other investment advisory programs, TFS also conducts reviews at least quarterly. However, TFS may provide written reports less frequently than quarterly, and discount the fee accordingly, in situations where:

- TFS cannot obtain complete account data in electronic format on a regular basis; or
- The client's account size is less than \$100,000

The investment advisory representative assigned to the client's account directs the review. The representative may work with one or more supervisors and various members of the technical staff.

To perform client account reviews, TFS reviews information supplied by various industry periodicals and a variety of money managers, as well as other relevant information. TFS evaluates the account's performance in comparison to market indexes and other money managers and mutual funds. TFS provides the reports in written form.

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

BTS Asset Management, Inc. (BTS), is a registered investment adviser that provides market timing services to some TFS clients. In most instances, BTS provides the services to the client under an advisory arrangement that has TFS as adviser and BTS as a subadvisor. In some cases, BTS advises the client and TFS is a solicitor, introducing the client to BTS. If TFS is a solicitor, BTS pays a solicitation fee to TFS. BTS and TFS fully disclose the solicitation agreement to the clients. The BTS solicitation arrangements are older agreements.

At the beginning of the TFS relationship with BTS, TFS and BTS handled all clients under the solicitation arrangement. Subsequently, BTS offered to permit an adviser – subadvisor arrangement under which TFS executes all trades recommended by BTS. By adopting this new arrangement, TFS has been able to offer most existing clients and all new clients more favorable pricing than under the old solicitation arrangement. (The BTS pricing structure of the old arrangement is no longer available, but BTS has grandfathered existing accounts.) Where more favorable to the clients, TFS is moving clients under the solicitation arrangements to the new structure. Where an account's size results in better pricing to the client under the old solicitation arrangement, TFS permits the client to keep that structure.

In addition, as part of our agreement with NFS, we receive a Business Development Credit each year for maintaining business with them. This does not create a material conflict of interest between us and the client since those payments are not contingent on the amount of assets we introduce to NFS or tied to the character or type of asset, or any specific product or service.

In connection with the TFS Investment Advisory Retirement Option plan, a client may enter into a servicing agreement with E.B.S., an affiliated third-party administrator (see item 10.b.). EBS would receive compensation (as described in the agreement) from the retirement plan custodian.

#### **Item 15 Custody**

If a client uses TFS as the broker for any investment advisory arrangement, TFS custodies the assets at National Financial Services, LLC (NFS). NFS is TFS's clearing broker and a qualified custodian. Since TFS can deduct advisory fees from client accounts, the investment advisory rules deem TFS to have custody. With regard to assets in custody at Schwab, we are deemed to have custody of your assets since you authorize us to instruct Schwab to deduct the advisory fee directly from your account. The client will receive at least quarterly account statement directly from the account custodian. Clients should carefully review the statements they receive from their custodian. In addition, for most client advisory accounts, TFS will also send the client quarterly reports that include account performance information. Clients should compare the statements received from their custodian to the reports received from TFS to ensure all fees, charges and transactions are proper. Finally, TFS can be deemed to have custody for certain transmittal policies. Outside custodians maintain custody of all funds and securities.

#### **Item 16 Investment Discretion**

While TFS provides nondiscretionary services on many of its investment advisory accounts, TFS does offer clients discretionary management services, primarily through the Thoroughbred and Cambridge accounts. Before TFS assumes discretionary authority from a client, TFS and the client will sign an investment advisory agreement. The advisory agreement sets forth the range of discretion held by TFS. If the client wants to place any limits on TFS's discretion, the client may do so in the investment advisory contract. Further, client account information that describes investment objectives and risk tolerance guides TFS.

With regard to the Bond Timing account, TFS holds the limited discretion to select a different high-yield bond mutual fund or ETF for the client's account in situations where the fund selected by the client is no longer available to the client. TFS also holds the discretion to allocate to multiple funds, based upon availability.

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

TFS is not obligated to advise or act for its clients in any voting or legal proceeding, including proxy voting, class action suits, and bankruptcies involving securities held in client accounts managed by TFS. TFS will not accept authority to vote client securities.

Clients will receive proxies or other solicitations directly from their custodian or a transfer agent, if applicable. Clients may contact their advisory representatives with questions regarding any proxy or solicitation.

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

In April 2020 Thoroughbred Financial Services, LLC (TFS) received a Paycheck Protection Plan ("PPP") Loan through the Small Business Administration (SBA) in conjunction with the relief afforded from the CARES Act during the COVID-19 Pandemic. The firm determined, at the time of its application for the loan, that the results of COVID-19, including the many "shelter in place" orders, and the severe volatility in the financial markets, would result in a

marked decrease in revenue. Without the PPP loan of \$552,600 and with prospect ongoing market declines TFS would have to consider salary reductions and ultimately staff layoffs.

As described in the program requirements, the loan provided to TFS is to be used to support the firm's payroll expenses and other expense items as allowed under the parameters of the program. If the requirements of the program are met, the loan would be forgiven by the SBA. If the PPP loan proceeds are used in any manner other than as allowed under the program, then the loan will convert to a standard loan which would require the firm to repay the loan proceeds in accordance with the firm's agreement with the lending financial institution. At this time the firm has not suffered an interruption of service but we will update our brochure with any material changes in the company's financial or operational status.