

# **VALIC FINANCIAL ADVISORS, INC.**

## **FIRM BROCHURE** Part 2A of Form ADV

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**December 2, 2021**

**This brochure provides information about the qualifications and business practices of VALIC Financial Advisors, Inc. (“VFA” or the “Firm”). If you have any questions about the contents of this brochure, please contact us at 866-544-4968. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.**

**VFA is a registered investment adviser. Registration as an investment adviser does not imply a certain level of skill or training. Additional information about VFA is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Our brochure may be requested by contacting VFA at 866-544-4968 or it is also available free of charge on our website at [www.aigrs.com/prospectus-and-reports/vfa-form-adv-materials](http://www.aigrs.com/prospectus-and-reports/vfa-form-adv-materials).**

**Item 2 - Material Changes**

No material changes have been made to VFA's Form ADV Part 2A since its last update on June 30, 2021.

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## **Item 4 - Advisory Business**

VFA is registered with the Securities and Exchange Commission (“SEC”) as an investment adviser. As an investment adviser, VFA provides to its clients the investment advisory products and services described in this brochure (the “Firm Brochure”). The Firm offers its investment advisory services through its investment adviser representatives (“IARs”) located throughout the United States. The Firm is also registered with the SEC as a broker-dealer and is a member firm of FINRA. As a broker-dealer, the Firm separately makes available securities such as stocks and bonds, mutual funds, exchange-traded funds (“ETFs”), variable annuity and variable life insurance products, and municipal securities. Broker-dealer services are not covered by this Firm Brochure and are not part of our advisory relationship with you and are not subject to regulation under the Investment Advisers Act of 1940. For more information regarding these brokerage services please see the VFA Guide to Brokerage Services available at [www.aigrs.com/client-relationship-summary/vfa-broker-dealer-brochure](http://www.aigrs.com/client-relationship-summary/vfa-broker-dealer-brochure). All IARs are also engaged in the Firm’s brokerage business and are registered with the Firm as registered representatives.

VFA was incorporated in Texas in 1996 and is headquartered in Houston, Texas with additional branches throughout the United States. VFA is a wholly owned subsidiary of The Variable Annuity Life Insurance Company (“VALIC”), doing business under the AIG Retirement Services brand name; VFA and VALIC are members of American International Group, Inc. (“AIG”). On November 2, 2021, Argon Holdco LLC, a wholly owned subsidiary of Blackstone Inc. (together, “Blackstone”), acquired 9.9% of the total voting shares of VFA’s indirect parent company SAFG Retirement Services, Inc. (“SAFG”). AIG continues to own the remaining 90.1% of SAFG’s total voting shares.

**VFA offers managed account advisory services to clients in return for a fee through the Guided Portfolio Services (“GPS”) Program, the Guided Portfolio Advantage (“GPA”) Program, and the Managed Investment Program (“MIP”). Additionally, VFA offers a limited or nondiscretionary advice program under the Portfolio Adviser service of the GPS program which represents traditional, self-service online advice, and offers a limited additional advisory service outside of all of these programs as described in Item 7. VFA also provides certain retirement or financial planning services to clients or prospective clients as a one-time investment advisory service. While these programs are summarized below, a more complete description of these wrap fee programs is included in the Wrap Fee Program Brochure for the GPS Program and GPA Program and the MIP Wrap Fee Program Brochure. These brochures may be obtained free-of-charge by contacting VFA at (866) 544-4968 or visiting our website at [www.aigrs.com/prospectus-and-reports/vfa-form-adv-materials](http://www.aigrs.com/prospectus-and-reports/vfa-form-adv-materials).**

As of March 31, 2021, VFA managed approximately \$24,259,700,000 on a discretionary basis.

### **(1) MIP**

MIP is an asset management program offered by the Firm. The Firm has contracted with Envestnet Asset Management, Inc. (“Envestnet”), a provider of wealth management software and services to financial advisors and institutions, to provide the operational and system support for MIP.

The Firm has selected investment managers, or “Strategists,” to provide services in MIP and that are responsible for the design and management of the MIP portfolio models. The Strategists include BlackRock Investment Management (“BlackRock”); CLS Investments, LLC (“CLS Investments”); Envestnet PMC, a division of Envestnet Portfolio Solutions, Inc. (“Envestnet PMC”), Russell Investment Management, LLC (“Russell Investments”) and The Vanguard Group (“Vanguard”). Envestnet PMC is an indirect, wholly owned subsidiary of Envestnet. The Strategists are responsible for the design and management of the asset allocation models for the MIP portfolios described below.

VFA and Envestnet are jointly responsible for the ongoing management of your MIP account and the Strategists create and maintain their respective MIP Portfolios as further described in the MIP Wrap Fee Program Brochure. In connection with this arrangement, your IAR will provide assistance in determining your asset allocation and the selection of your MIP portfolio options. Your asset allocation will be based upon your responses within an investment profile questionnaire (the “Client Profile Questionnaire”), which includes factors such as risk tolerance, goals, investment objectives and time horizon. Your portfolio will be assigned an allocation ranging from Very Conservative to Very Aggressive with several allocations in between.

After completing the Client Profile Questionnaire, your IAR will help you complete an additional questionnaire designed to determine your investment focus, which may include traditional asset allocation, cost sensitivity, and socially and environmentally responsible investing, among others. Note that, if your IAR recommends the Selected Managed Investor Account Portfolio, as described in the MIP Wrap Fee Program Brochure, you will not complete the second questionnaire. Based on your responses in the second questionnaire, your IAR will recommend one or more MIP portfolios that best meet your needs based on the information you have provided. Your IAR will present the proposed allocation to one or more MIP Portfolios, which incorporates your responses to the Client Profile Questionnaire, for your review and approval. As your needs change or market conditions warrant, you have the flexibility to revisit your investor profile and complete a new Client Profile Questionnaire to determine whether you are appropriately invested.

The MIP Program currently offers fifteen (15) different portfolios as noted in the MIP Wrap Fee Program Brochure. Regardless of which portfolio you select, you retain flexibility to modify your portfolio model selection when your needs change or market conditions warrant.

*If you are interested in learning more about MIP, a complete description of the programs, services and fees are available in VFA's Form ADV Part 2A, Appendix 1 - MIP Wrap Fee Program Brochure, investment advisory agreement, and account opening documents. These documents are available upon request from your IAR or by contacting VFA at 866-544-4968.*

## (2) GPS Program – Retirement Plans

VFA offers the GPS Program, which is an advice and asset management program offered to individuals in connection with their participation in certain employer-sponsored retirement plans. This advisory program is available to participants in retirement plan accounts where the plan service provider is either VALIC or VALIC Retirement Services Company ("VRSCO"), each an affiliate of VFA. Your retirement account may be invested in a VALIC Portfolio Director ("PD") variable annuity or in a mutual fund program through which VRSCO provides recordkeeping, compliance and administrative services to the plan and plan participants.

There are two services under the GPS Program that may be available in your retirement plan. The two services are:

GPS Portfolio Advisor	GPS Portfolio Manager
<p>This service is an online program that enables you to obtain retirement income forecasts, contribution rate and retirement age recommendations, asset allocation models and investment advice through Morningstar Investment Management LLC ("Morningstar"), an independent financial expert, free of charge. Once you have submitted the necessary inputs to the GPS Client Profile (defined below), you will receive a point-in-time recommendation for the allocation of your account value, and future contributions, among the fixed and variable investment options in your VALIC variable annuity or among the investment options available in your mutual fund platform account. It is then your decision whether to implement the investment advice in whole, in part, or not at all, as <b>VFA only provides non-discretionary investment advice with this service and does not engage in any account management or ongoing or periodic monitoring of assets for this service.</b> You are also solely responsible for reviewing and updating the information you input in the program with respect to the completeness, accuracy, and timeliness of your information. You should review your retirement account(s) periodically to monitor changes in the market and the value of your investments and subsequent contributions because a failure to review and update account information through this program may materially affect the content and value of the service.</p>	<p>This service is a discretionary investment advice program that enables you to obtain retirement income forecasts, contribution rate and retirement age recommendations, asset allocation models and investment advice through Morningstar, the independent financial expert, along with ongoing automated asset management services including automatic implementation of the investment advice, periodic portfolio rebalancing, automatically generated annual updates to advice and annual retirement income forecasts for your review, portfolio monitoring and special investment advice statements.</p> <p>GPS Portfolio Manager applies asset allocations provided by Morningstar without modifications (although application of such asset allocations may be subject to limitations imposed by one or more plan investment options), to manage your investments exclusively in accordance with the retirement objectives and resource you indicated as part of your GPS Client Profile.</p> <p>Additionally, you may also receive personalized service from VFA IARs in person, online or by telephone.</p> <p><b>In this program you will be granting VFA discretionary investment authority over the account.</b></p>

Consistent with the Department of Labor Advisory Opinion 2001-09A, also known as the SunAmerica Opinion, Morningstar is the "independent financial expert" to the GPS Program, and provides the advice methodologies that are used to produce investment recommendations to, or implemented on behalf of, participants in the GPS Program.

As part of your enrollment in GPS Portfolio Manager, you will provide information to complete a GPS Client Profile. The GPS Client Profile is designed to help you think about your retirement income goal and time horizon, as well as allow you to disclose your risk preferences, and provide information about the assets, benefits, and retirement savings contributions that you intend to use to fund your retirement. GPS Portfolio Manager uses this information to develop an Investment Policy Statement ("IPS"), which will include a portfolio assignment and will determine how your account(s) will be invested. There are seven portfolio assignments, ranging from Very Conservative to Very Aggressive. The asset classes and specific investment vehicles used in these portfolios depend on the investment vehicles available in the plan's lineup, which is determined by the plan sponsor. If applicable to your account, the risk preferences you indicated in your GPS Client Profile will not override this portfolio assignment methodology, but it may cause Morningstar's portfolio assignment to shift to a more aggressive or more conservative model portfolio than what would have been otherwise assigned. Note that Morningstar's model portfolio assignment is based on all the client household assets that a participant included in their GPS Client Profile (including assets outside the GPS Portfolio Manager). Neither diversification nor asset allocation ensure a profit or guarantee against a loss.

GPS Portfolio Manager applies asset allocations provided by Morningstar without modifications (although application of such asset allocations may be subject to limitations imposed by one or more plan investment options), to manage your investments exclusively in accordance with the retirement objectives and resource you indicated as part of your GPS Client Profile. Depending on availability, your GPS Client Profile may also include responses to a series of risk preference questions that will be considered when determining your portfolio assignment. The investment advice and recommendations you receive will be based solely on the information disclosed to VFA in your GPS Client Profile, and on the balances/allocations of assets you have in your VALIC plans(s)/accounts(s). The advice delivered by the GPS Program will not consider any investment objectives, risk profiles/preferences beyond those captured in your GPS Client Profile, as applicable, or other information you may have provided or disclosed previously or in relation to other, separate products, securities, or services.

***If you are interested in learning more about the GPS Program, a complete description of the program, services and fees are available in VFA's Form ADV Part 2A, Appendix 1 – Wrap Fee Program Brochure for the GPS Program and GPA Program, investment advisory agreement, and account opening documents. These documents are available upon request from your IAR or by contacting VFA at 866-544-4968.***

### **(3) GPA Program – Individual Variable Annuities**

The Firm also offers the GPA Program, which is an asset management program offered exclusively to clients of VALIC who (1) purchased the VALIC Portfolio Director Advantage fixed and variable annuity contract ("PD Advantage") or (2) purchase the VALIC Portfolio Director Freedom Advisor fixed and variable annuity contracts ("PD Freedom Advisor"). The PD Advantage and PD Freedom Advisor contracts are issued by VALIC, VFA's parent company.

On January 29, 2018, existing PD Advantage contract owners who had not enrolled in the GPA Program were no longer permitted to enroll in the Program. Existing PD Advantage contract owners enrolled in the GPA Program may continue to make subsequent deposits into the contract under certain circumstances, which deposits will be managed under the program. The Firm offers the PD Freedom Advisor contract to individuals who desire to purchase an annuity and enroll in the GPA Program.

Before enrolling in the GPA Program, you must first complete a GPA Client Profile and Risk Tolerance Questionnaire ("GPA Client Profile"). The GPA Client Profile will help you to determine your risk tolerance and time horizon. This will help to determine an Asset Allocation Policy and portfolio assignment, which determines how your account will be invested.

Similar to the GPS Program, Morningstar is the independent financial expert to the GPA Program. In its role as independent investment manager, Morningstar uses a tactical asset management program that develops a set of diversified model portfolios beginning with strategic asset allocations that are typically reviewed annually and updated if necessary. Then, as frequently as monthly, Morningstar analyzes the performance trends of all the asset classes included in their model portfolios and adjusts allocations to asset classes in order to take advantage of these trends. However, to keep the tactical asset allocation targets consistent with each model portfolio's intended investment objectives, Morningstar may limit how much the tactical allocations are allowed to deviate from their corresponding strategic allocations. After establishing tactical asset allocation targets, Morningstar completes construction of the GPA model portfolios using a mix of investment options that allows them to meet their tactical asset allocation targets. When updates to the model portfolios are implemented, the investment allocations of accounts managed by GPA are reviewed and reallocated to the new targets as necessary.

***If you are interested in learning more about the GPA Program, a complete description of the program, services and fees are available in VFA's Form ADV Part 2A, Appendix 1 – Wrap Fee Program Brochure for the GPS Program and GPA Program, investment advisory agreement, and account opening documents. These documents are available upon request from your IAR or by contacting VFA at 866-544-4968.***

### **(4) Financial Planning**

The Firm offers its individual customers non-discretionary financial planning services. These services can involve preparing a financial plan or rendering a financial consultation which may encompass one or more of the following areas:

- An estimate of your net worth.
- Income and expenses analysis.
- Spending analysis.
- Cash reserves.
- Analysis of debt and debt ratios, including addressing consumer debt.
- A summary of your investments.
- Analysis of your risk frontier and exposure.
- Your retirement savings vehicles.
- Your pension and distribution options.
- Investing for retirement strategies.

As part of the financial planning process, your financial professional will work with you to complete a client questionnaire, which requires information about your income, social security benefits, tax status, investment assets, other assets and savings, liabilities and current expenses, insurance policies, estate plans, tax information, risk tolerance and financial goals.

These services usually include a written financial plan and usually includes general recommendations for a course of activity or specific actions to be taken by the clients. For example, recommendations may be made that the clients begin or revise investment programs, obtain or revise insurance coverage, commence or alter retirement savings, or establish education or charitable giving programs. It should also be noted that the financial professional refers clients to an accountant, attorney, or other specialist, as necessary for non-advisory related services. The financial strategies presented in the financial plan are intended only as a guide, and implementation of the recommendations will be at the discretion of the client. The provision of financial planning services does not result in continuing obligations with respect to the information or conclusions presented in the report. **Any analysis of tax, financial, or accounting issues relating to your situation is for discussion purposes only and not intended to be tax or legal advice.** If you request that your financial professional assist you with the implementation of the financial plan, the financial professional may assist with the purchase or sale of certain products since the financial professional is also a registered representative with the Firm. However, the products that your financial professional may offer are limited to those approved by the Firm.

Typically, the Firm delivers the report via hard copy or online within 30 days following the completion of all elements of the client questionnaire. Following delivery of the report, the financial professional will attempt to meet with you to discuss the contents of the financial plan. VFA's financial planning services utilizes the financial planning software provided by VALIC's Acumen group (for Financial 360) and RetireUp (for Retirement Pathfinder).

## **Item 5 - Fees and Compensation**

### **(1) MIP**

*Fee:* The fees you pay for your account(s) are based on a **Program Fee** as more fully described below. The Program Fee for your account covers the provision of initial and ongoing investment services and the execution of securities transactions. The Program Fee consists of the sum of:

**Advisory Fee** - This fee is the amount paid to VFA for advisory services; and

**Platform Fee** - This fee is for the other fixed and variable costs of your MIP portfolio as described further below. It is not negotiable and includes the fees and costs for services provided by, as applicable, VFA, Envestnet, the Strategists, and NFS for your MIP Portfolio.

The Program Fee includes the fees and costs for services provided by your IAR, VFA, Envestnet, the Strategists, and National Financial Services LLC ("NFS"). There are certain fees that are not covered by the Program Fee, which are more fully described in the MIP Wrap Fee Program Brochure.

The Firm begins to charge the Program Fee once it approves your account on Envestnet's system, which typically occurs shortly after you complete your enrollment in the MIP Program and assets are received in your account to meet an initial minimum account balance. The Program Fee is a tiered fee that is calculated quarterly, in arrears, based on the average daily balance of your MIP account during the quarter and is deducted from your account shortly after the quarter-end. If your MIP account is managed for only a portion of a quarter, the Program Fee will be pro-rated accordingly based on the average daily balance during that portion of the quarter and the fee will be deducted before your account balance is distributed.

In calculating the applicable fees for the MIP Program, the Firm does not include the account values of your accounts, if any, held in the Firm's GPS Program and/or GPA Program. For a complete description of the Program Fee for each of the MIP portfolios and an explanation of its calculation, see the MIP Wrap Fee Program Brochure.

*Compensation and Conflicts of Interest.* A portion of the Advisory Fee collected by the Firm is shared with your IAR for introducing and servicing your advisory account. For account proposals generated on or after January 29, 2018, but before January 1, 2019, the Advisory Fee is a tiered fee based on the average daily balance in your MIP account during the quarter and may be up to 0.95% per annum based on the value of assets in the account. For account proposals established on or after January 1, 2019, the Advisory Fee is a tiered fee beginning at 0.90% for all MIP portfolios. For accounts established prior to January 29, 2018, the Advisory Fee will vary among MIP accounts based on the Program Fee on your account. **If you have an existing MIP account that compensates the IAR more than he receives under the agreement for a new account, and you seek to make an additional deposit or open a new MIP account, your IAR has a financial incentive to recommend that you deposit the additional funds into your existing account rather than open a new account.** We manage the potential for this conflict of interest by maintaining policies and procedures designed to ensure that IARs make recommendations that are in the best interest of the investor in the context of the products and services offered by the Firm. Specifically, recommendations to transfer assets from one product to another are reviewed by our Supervision department, the members of which do not receive any variable product-based compensation. Additionally, the Firm maintains programs for the review of these policies and procedures, other compliance related review and surveillance activities, and from time-to-time the Firm engages outside consultants to review, evaluate, and recommend changes to existing policies and procedures.

As a registered representative of the Firm, your IAR is paid for the sale of products and services, including sales commissions for annuities and mutual funds, and ongoing fees for certain securities and advisory products. For example, your IAR receives a portion of the Advisory Fee you pay on your MIP account, which is an ongoing fee for the services provided under the program. Your IAR's compensation will vary based on the products and services provided to you. Your IAR may have a financial incentive for you to transfer your assets to a product or service, such as MIP, that would increase the IAR's compensation over what s/he receives on an existing product or service.

**Other Charges & Transaction Costs.** Your investment in an MIP account is subject to certain other fees and charges imposed by third parties, as more fully described in the MIP Wrap Fee Program Brochure. Your mutual fund investment in an MIP account is subject to certain internal fees and expenses, such as advisory, administrative, custody and other fees and expenses charged by the fund, which shareholders bear on a pro rata basis. Mutual funds offer a variety of share classes, which hold the same portfolio securities but differ in total cost due to the imposition of various fees such as 12b-1 fees, sub-transfer agency and shareholder services fees. A higher cost share class of a particular mutual fund will result in lower investment performance compared to a lower cost share class of the same fund.

VFA does not typically use share classes that charge 12b-1 fees if there is a non-12b-1 share class available and if a 12b-1 share class is used in the future, any such fees collected by VFA will be rebated to clients. However, for custom MIP Portfolios, VFA will use share classes that include sub-transfer agency and/or shareholder service fees, which compensate NFS for services it provides to such funds ("Eligible Share Classes"). VFA seeks to include in MIP portfolios the least costly Eligible Share Class available to the program. Note that there may be other less costly share classes offered by the fund that are either (i) not available on the NFS platform, (ii) are available on the NFS platform but are subject to a surcharge imposed by NFS to trade such share classes, or (iii) are not available for use in MIP portfolios due to constraints imposed by the fund. VFA will not offer these lower cost share classes in MIP portfolios. VFA monitors on a periodic basis for the launch and availability of lower cost Eligible Share Classes on the NFS platform and will seek to exchange investors into such Eligible Share Classes on a periodic basis following the availability of such lower cost Eligible Share Class(es).

If a mutual fund purchased within your MIP account charges a 12b-1 fee, sub-transfer agent fee or shareholder services fee that is paid to or shared with VFA, VFA will rebate your proportionate share of those fees to your MIP account. However, if the share class available in MIP charges such fees and they are retained by our clearing broker, NFS, then clients will not receive a rebate and their investment returns will be adversely impacted by payment of such fees.

For certain non-custom MIP Portfolios managed by Envestnet and as described in the MIP Brochure, the Firm is one of multiple investment advisers that offer the model portfolios to its clients: MIA ActivePassive Portfolios, MIA American Funds Active Core Portfolios, MIA Franklin Templeton Funds ActivePassive Portfolios, MIA Passive Foundation Portfolios and MIA Impact Foundation Portfolios. Accordingly, VFA cannot dictate which share class is used for these Portfolios – that decision is made by Envestnet. As part of its periodic review process, VFA will work with its service providers, including Envestnet, to facilitate the exchange into a lower cost share class following the availability of such lower cost share class(es), but such decisions and timing are controlled by Envestnet.

For Portfolios that include ETFs, you should note that shares of an ETF trade on an exchange, and therefore, the value of such shares may differ from the value of the ETF's underlying investments. ETFs may trade at a market price which reflects a "premium" or a "discount" to the net asset value ("NAV") of their shares. If the market price is higher than the NAV, the ETF is said to be trading at a "premium". If the price is lower, it is trading at a "discount". Accordingly, ETFs may be purchased at prices that exceed the NAV of their underlying investments and may be sold at prices below such NAV. Under such circumstances the sale of ETF shares sold at a discount may not mirror the NAV of the underlying investments of those ETF shares. Moreover, there are costs associated with purchasing and selling an ETF, called a "bid-ask" spread (the difference between what a buyer is willing to pay (bid) for an ETF and the seller's offering (ask) price). These transaction costs (which do not apply to the purchase and sale of mutual funds) will adversely affect the performance of the MIP portfolios models that invest primarily in ETFs.

***For more information about the fees associated with the MIP, see the MIP Wrap Fee Program Brochure, which is available upon request from your IAR or by contacting VFA at 866-544-4968.***

## **(2) GPS Program**

While you are enrolled in the GPS Program, you pay the advisory fees as noted below, for the management of your account(s) and other fees and expenses of the product, underlying investment(s) and /or platform in which you are invested. In calculating the applicable fees for the GPS Portfolio Manager Program, the Firm does not include the account values of your accounts, if any, held in the Firm's GPA Program and/or MIP Program.

**Fees – GPS Portfolio Advisor Program:** There is no fee for the use of this service.

**Fees – GPS Portfolio Manager Program:** Participants in the GPS Portfolio Manager Program pay an advisory fee based on the combined account value(s) at each quarter-end as shown below. Your account values enrolled in the program will be aggregated across all plans. Effective on or about April 1, 2021, if the combined value in your GPS Portfolio Manager account(s) at calendar quarter-end is less than \$5,000, advisory fees will not be calculated or assessed for that quarter. If you have multiple accounts enrolled



in the GPS Portfolio Manager Program, the quarter-end account values for all of your enrolled accounts are combined for determining the advisory fee. This may result in an advisory fee charged on an account with a quarter-end balance below \$5,000 if the combined quarter-end account balance of all your enrolled accounts is at least \$5,000. Accounts are aggregated for fee calculation purposes based on your social security number. The Firm does not combine the account values of your family members' accounts with your account value for the purpose of calculating your advisory fees. The Firm typically enters into a GPS plan services agreement with your employer that provides that the Firm may offer the GPS Program services to you and other plan participants. The advisory fee is typically a tiered fee that is up to 0.60% of the account value at quarter-end, which may be negotiated by the plan sponsor. This fee is not negotiable with plan participants. The rate applicable to your account is included in the Fee Schedule which accompanies your Advisory Agreement. For a complete description of the advisory fee for the GPS Program and an explanation of its calculation, see the Wrap Fee Program Brochure for the GPS Program and GPA Program.

Effective April 2021, VFA reserves the right to terminate the GPS Portfolio Manager service for participants with less than \$5,000 in aggregate assets under management in the GPS Program if they have no deposits to any of their GPS accounts for at least 12 consecutive months.

*Other Fees and Expenses.* The VALIC PD variable annuity contract in which your retirement plan invests includes various fees and expenses including, but not limited to, separate account charges, account maintenance fees, surrender charges and the fees and expenses of the underlying mutual funds available in the contract. Certain of the underlying funds available in the PD variable annuity contract pay 12b-1 fees to VALIC. VALIC uses those fees to directly reduce the separate account charges applicable to the corresponding fund options in the contract. Separately, if your plan invests directly in mutual funds, you bear the fees and expenses of the mutual funds available in the program and plan-related fees and expenses, such as recordkeeping fees. If your plan sponsor has selected a mutual fund that charges a 12b-1 fee, VRSCO, as the plan service provider, reduces or offsets the recordkeeping fees you or your plan sponsor pay, or offsets other plan expenses. This amount is based on 12b-1 fees received or expected to be received by the Firm from the funds. An offset of fees to the plan can be direct, reducing the fee that is actually charged, or indirect, as a credit to your plan account which offsets some or all of the fees charged to the account. Please review the mutual funds' prospectuses for information about the fees and expenses of the mutual funds available within your plan and contact your retirement plan provider for information about recordkeeping/administrative services fees you pay as part of your retirement plan account.

*Compensation to VFA and IARs.* VFA receives the advisory fee as compensation for your participation in the GPS Portfolio Manager Program. VFA pays your IAR compensation which generally is calculated on a portion of these advisory fees. If you enroll in the GPS Portfolio Advisor Program, there is no annual fee and the IAR does not receive any compensation.

If you are enrolled in the GPS Program within a VALIC PD variable annuity contract or within a mutual fund platform, your VFA IAR typically will receive other compensation for services you receive in connection with your plan account(s), including commissions on deposits into your account(s), a combination of salary/fixed payments, and bonus/enrollment payments. This compensation is in addition to any advisory fees VFA generally pays to your IAR for your participation in the GPS Portfolio Manager Program. The compensation that your IAR receives related to your participation in the GPS Portfolio Manager Program creates a financial incentive for her/him to recommend your enrollment in, and additional investments in, the GPS Portfolio Manager Program.

***For more information about the fees associated with the GPS Program, see the Wrap Fee Program Brochure for the GPS Program and GPA Program, which is available upon request from your IAR or by contacting VFA at 866-544-4968.***

### **(3) GPA Program**

The GPA Program is only available to individuals who have purchased a PD Advantage (prior to January 29, 2018) or PD Freedom Advisor fixed and variable annuity contract. While you are enrolled in the GPA Program, you pay the advisory fees for the management of your account(s) and other fees and expenses of the product or platform in which you are invested.

*Advisory Fees:* Clients in the GPA Program pay an advisory fee based on the account value of their PD Advantage or PD Freedom Advisor account at the calendar quarter-end. Fees are pro-rated for the quarter in which a termination or surrender occurs. The GPA Program advisory fee rate may not be negotiated. The rate applicable to your account is included in your Advisory Agreement. For the services rendered in connection with the PD Advantage contract, you pay an annual advisory fee rate of up to 1.00% of assets under management in the contract. For services rendered in connection with the PD Freedom Advisor contract, you pay an annual advisory fee rate of up to 1.12%.

*Other Fees and Expenses.* As a contract owner in either PD Advantage (accounts established prior to January 2018) or PD Freedom Advisor (accounts established beginning in January 2018), you bear the fees and expenses of the annuity contract, including, but not limited to, separate account charges, account maintenance fees, surrender charges, if applicable, and the fees and expenses of the underlying mutual funds available in the applicable contract. The PD Advantage contract and the PD Freedom Advisor contracts include mutual funds in which they, or their affiliates, have an agreement with VALIC to pay for administrative, recordkeeping and/or distribution and shareholder services that VALIC or its affiliates provide to the underlying mutual fund(s) in these products. Currently, the payments VALIC receives from these mutual funds or their affiliates for the PD Advantage contract range from 0.00% to 0.40%, and for the PD Freedom Adviser contract from 0.00% to .025%, based on the market value of the assets invested in the underlying

**Firm Brochure**

mutual fund(s) as of a certain date, usually paid at the end of each calendar quarter. VALIC may, in its discretion, apply some or all of these payments to reduce the separate account charges applicable to the corresponding fund options in these contracts. **However, it is not obligated to do so.** At this time, the PD Advantage and PD Freedom Adviser contracts includes VALIC Company II mutual funds ("VALIC II") which pay up to 0.25% for various administrative services. VALIC reduces the separate account charge by the amount of the payment that it receives from the VALIC II funds. Please review your variable annuity product prospectus for details regarding annuity product fees and the underlying investment option (mutual fund) offering and the mutual fund prospectuses for details regarding their respective fees and expenses.

*Compensation to your IAR.* IARs are compensated from the advisory fees paid on assets in the GPA Program in your PD Advantage or PD Freedom Adviser contracts, up to 0.90% annually based on the value of assets in the account. The advisory fees charged by VFA may be similar to or higher than the fees charged by other investment advisers. The compensation received may or may not be more than what would be received if you paid us separately for investment advice, brokerage, and other services. If the amount would be more than what an IAR would receive if you participated in other programs we offer or paid separately for investment advice, brokerage and other services, the IAR will have a financial incentive to recommend this program over other programs or services.

***For more information about the fees associated with the GPA Program, see the Wrap Fee Program Brochure for the GPS Program and GPA Program, which is available upon request from your IAR or by contacting VFA at 866-544-4968.***

#### **(4) Financial Planning**

The Firm does not charge for completing a financial plan.

Once the written report has been provided to the client, there are no continuing obligations with respect to the information or conclusions presented in the report. Following the delivery of the written report, your IAR, who is also a registered representative of the Firm, may recommend the purchase or sale of securities, insurance products or advisory services. If you purchase a product or enroll in a service based on those recommendations, the Firm and/or your IAR will receive compensation in the form of a commission or ongoing fee.

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

Neither VFA nor its IARs charge performance-based fees. Performance-based fees are fees that are based on a share of capital gains on or capital appreciation of the assets of a client.

### **Item 7 - Types of Clients**

VFA and its IARs provide advisory services to individuals, including high net worth individuals, and participants in employer-sponsored retirement plans. VFA may also provide advisory services to trusts, corporations, or other business entities depending on the advisory program. While VFA provides advisory services to participants in employer-sponsored retirement plans, VFA does not provide advisory services to the plan sponsors of such retirement plans, with a limited number of exceptions as described in this paragraph. Such exceptions represent a limited set of express contractual accommodations outside of the advisory programs described in this Firm Brochure. These limited accommodations generally involve prescribed advisory support for: evaluating initial investment options; monitoring existing plan investment options based upon third party data and analysis; recommendations of investment option replacements; limited or no discretionary authority to replace an investment option (such as a mutual fund) without authorization of the plan or program sponsor; and, application of resulting fund changes to participant investment allocation elections when an investment option is no longer available. VFA does not intend to enter into additional accommodations of this type.

Depending on which wrap fee program a client selects, VFA may require a minimum dollar value of assets as a condition of maintaining an investment advisory account. VFA at its sole discretion may waive the required minimum dollar assets to maintain an account.

The clients that may participate in VFA advisory programs and the minimum initial account size requirements for opening an account are as follows:

- **MIP Program.** This service is available to individuals, trusts, corporations, and other business entities. The minimum initial account balance for the MIP portfolios range from \$5,000 to \$250,000, depending on the portfolio. **The Firm reserves the right to lower the minimum required amount on a case-by-case basis, as well as the right to terminate an account if the assets in an account fall below the applicable minimums.** See the MIP Wrap Fee Program Brochure for additional information regarding minimum account balances.
- **GPS Program.** This service is currently only available to individual participants in a retirement plan account with VALIC or VRSCO. There is no minimum account balance to participate in the program.
- **GPA Program.** This service is available to individuals, trusts, corporations, and other business entities. To enroll in this program, you must purchase a PD Freedom Adviser contract. Existing PD Advantage contract owners who have previously enrolled in the GPA Program may make subsequent deposits into the contract, which will be managed under the program.

The GPA Program does not have a minimum account balance though the PD Freedom Advisor contract has a minimum initial premium payment of \$25,000.

- **Financial Planning.** The Firm's financial planning services are limited to individuals.

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

### **MIP:**

If you are interested in establishing an MIP account, your IAR will provide assistance in determining your asset allocation and the selection of your MIP portfolio options. Your asset allocation will be based upon your responses within an investment profile questionnaire (the "Client Profile Questionnaire"), which includes factors such as risk tolerance, goals, investments objectives and time horizon. Your portfolio will be assigned an allocation ranging from Very Conservative to Very Aggressive with several allocations in between. After completing the Client Profile Questionnaire, your IAR will help you complete an additional questionnaire designed to determine your investment focus, which may include traditional asset allocation, cost sensitivity, and socially and environmentally responsible investing, among others. Note that, if your IAR recommends the Selected Managed Investor Account Portfolio, as described in the MIP Wrap Fee Program Brochure, you will not complete the second questionnaire. Based on your responses in the second questionnaire, your IAR will recommend one or more MIP portfolios that best meet your needs based on the information you have provided. As your needs change or market conditions warrant, we have the flexibility to revisit your investor profile to determine whether you are appropriately invested. Should any of your information change, you should contact your IAR. An IAR is available to answer any questions and to help implement any changes you want to make based on changes in personal or financial circumstances, or the financial markets.

Based on your responses to the Client Profile Questionnaire and follow-up questionnaire, a plan will be developed and your IAR will present the proposed allocation to one or more MIP Portfolios, which incorporates your responses to the Client Profile Questionnaire, for your review and approval. After you have reviewed and approved the plan, Envestnet PMC will invest and monitor your account for conformance to the allocation and will rebalance your account periodically to maintain the asset allocation for the MIA Portfolios, MIA ActivePassive Portfolios, MIA American Funds Active Core Portfolios, MIA American Funds Active Income Portfolios, MIA Franklin Templeton Funds ActivePassive Portfolios, Index Plus MIA Portfolios, MIA California Residents Portfolios, MIA Retirement Income Portfolios, MIA Passive Foundation Portfolios, MIA Impact Foundation Portfolios, MIA BlackRock Target Allocation ETF Portfolios, MIA BlackRock Target Allocation ESG Portfolios, and MIA Vanguard Portfolios. For the Selected MIA Portfolios, based on your responses to the Client Profile Questionnaire only, your IAR will recommend a separate account manager from a list of managers for which Envestnet PMC has conducted due diligence. Your IAR will present the plan to you for your review and approval. Once the plan is implemented, the separate account manager will invest and manage your account for conformance to the plan and will rebalance your account periodically.

Note that for the Integrated MIA Portfolios, and based on your responses to the Client Profile Questionnaire and follow-up questionnaire, Envestnet PMC will develop a customized plan of investments for you which may include investment products such as mutual funds, ETFs, and separate account managers. Effective May 1, 2021 the Integrated MIA Portfolios was closed to new accounts; existing accounts established on or before May 1, 2021 may continue to make additional investments. Once the account plan is implemented, Envestnet PMC will monitor your account for conformance to the plan and will rebalance your account periodically to maintain the asset allocation. For the MIA Russell Portfolio and based on your responses to the Client Profile Questionnaire and follow-up questionnaire, Russell Investments will build a portfolio of mutual funds suitable for your situation and Envestnet will monitor your account for conformance to the plan and will rebalance your account periodically to maintain the asset allocation.

***If you are interested in learning more about MIP, a complete description of the programs, services and fees are available in VFA's Form ADV Part 2A, Appendix 1 - MIP Wrap Fee Program Brochure, investment advisory agreement, and account opening documents. These documents are available upon request from your IAR or by contacting VFA at 866-544-4968.***

### **GPS:**

VFA offers the GPS Program, which is an advice and asset management program offered to individuals in connection with their participation in certain employer-sponsored retirement plans. This advisory program is available to participants in retirement plan accounts where the plan service provider is either VALIC or VRSCO, each an affiliate of VFA. Your retirement account may be invested in a VALIC Portfolio Director ("PD") variable annuity or in a mutual fund program through which VRSCO provides recordkeeping, compliance and administrative services to the plan and plan participants.

As part of your enrollment in the GPS Portfolio Manager Program, you will complete a GPS Client Profile ("GPS Client Profile"). The GPS Client Profile will help you to think about your retirement income goal and time horizon, as well as allow you to disclose your risk preferences, and provide information about the assets, benefits, and retirement savings contributions that you intend to use to fund your retirement. The GPS Program uses this information to develop an IPS, which will include a portfolio assignment and will determine how your account(s) will be invested. There are seven portfolio assignments, ranging from Very Conservative to Very Aggressive. The asset classes and specific investment vehicles used in these portfolios depend on the investment vehicles available in the plan's lineup, which is determined by the plan sponsor. For

further information related to the Methods of Analysis, Investment Strategies, and Risk of Loss, please refer to the description of the GPS Program provided in Item 4 of this Brochure.

***If you are interested in learning more about the GPS Program, a complete description of the program, services and fees are available in VFA's Form ADV Part 2A, Appendix 1 – Wrap Fee Program Brochure for the GPS Program and GPA Program, investment advisory agreement, and account opening documents. These documents are available upon request from your IAR or by contacting VFA at 866-544-4968.***

#### **GPA:**

Before enrolling in the GPA Program, you must first complete a GPA Client Profile and Risk Tolerance Questionnaire (“GPA Client Profile”). The GPA Client Profile will help you to determine your risk tolerance and time horizon. This will help to determine an Asset Allocation Policy and portfolio assignment, which determines how your account will be invested.

Similar to the GPS Program, Morningstar is the independent financial expert to the GPA Program. In its role as independent financial expert, Morningstar uses a tactical asset management program that develops a set of diversified model portfolios beginning with strategic asset allocations that are typically reviewed annually and updated if necessary. Then, as frequently as monthly, Morningstar analyzes the performance trends of all the asset classes included in their model portfolios and adjusts allocations to asset classes in order to take advantage of these trends. However, to keep the tactical asset allocation targets consistent with each model portfolio's intended investment objectives, Morningstar does limit how much the tactical allocations are allowed to deviate from their corresponding strategic allocations before rebalancing to bring accounts back into targeted alignment. After establishing tactical asset allocation targets, Morningstar completes construction of the GPA model portfolios using a mix of investment options that allows them to meet their tactical asset allocation targets. When updates to the model portfolios are implemented, the investment allocations of accounts managed by GPA are reviewed and reallocated to the new targets as necessary.

***If you are interested in learning more about the GPA Program, a complete description of the program, services and fees are available in VFA's Form ADV Part 2A, Appendix 1 – Wrap Fee Program Brochure for the GPS Program and GPA Program, investment advisory agreement, and account opening documents. These documents are available upon request from your IAR or by contacting VFA at 866-544-4968.***

**General Investment Risks.** Investing in securities involves risk of loss that clients should be prepared to bear. The methods of analysis and investment strategies used by VFA and material risks are described below.

**MIP Program.** In MIP, the Strategists or, in certain portfolios, a separate account manager will provide investment advice and asset allocation for the portfolio models. Each MIP portfolio has different investments strategies and objectives. Your IAR will work with you to determine which portfolio best meets your financial needs.

**GPS Program and GPA Program.** In the GPS Program and the GPA Program, Morningstar provides investment advice and asset allocation for retirement plan and variable annuity accounts. Accounts enrolled in the GPS Program will be managed exclusively in accordance with the retirement objectives indicated on your GPS Client Profile. Within your GPS Program advisory account, your assets will be allocated among the mutual funds or fixed interest options within a variable annuity or within a combination of mutual funds and a group fixed annuity, which annuities and funds were selected by your employer/retirement plan sponsor. Within your GPA Program advisory account, your assets will be allocated among the mutual funds or fixed interest options within an individual variable annuity that you have purchased. Within your retirement plan, Morningstar may select investment options or mutual funds from a range of asset classes, including but not limited to domestic equities, international/foreign equities, fixed income, and others.

#### **Risks Investing in ETFs and Mutual Funds**

**Unique Risks of Investing in ETFs.** An ETF is a security that trades on an exchange during market hours and typically seeks to track an index, commodity, or a basket of assets like an index fund. However, some ETFs are actively managed and do not seek to track a certain index or basket of assets. ETFs may trade at a market price which reflects a “premium” or a “discount” to the net asset value (“NAV”) of their shares. If the market price is higher than the NAV, the ETF is said to be trading at a “premium”. If the price is lower, it is trading at a “discount”. Accordingly, ETFs may be purchased at prices that exceed the NAV of their underlying investments and may be sold at prices below such NAV. Under such circumstances the sale of ETF shares sold at a discount may not reflect the NAV of the underlying investments of those ETF shares. Moreover, there are costs associated with purchasing and selling an ETF, called a “bid-ask” spread (the difference between what a buyer is willing to pay (bid) for an ETF and the seller's offering (ask) price). All of these transaction costs (which do not apply to the purchase and sale of mutual funds) will adversely affect the performance of the MIP portfolios models that invest primarily in ETFs. ETFs may also have unique risks depending on their structure and underlying investments.

**Risks of ESG Focused Investing.** For investments that include, or focus on, allocations in mutual funds or ETFs with an ESG investment strategy, this results in investments based on the view of the portfolio manager for that mutual fund and/or ETF of the sustainability and ethical impact of an investment in a business or company. Accordingly, these types of investments screen out, and may forego certain potentially profitable investment opportunities in, specific companies and industries pursuant to the criteria established by the portfolio manager. If an underlying mutual fund or ETF is focused on ESG investing, it could result in lower

performance results for that investment compared to an investment that does not apply ESG-focused exclusionary screens to screen out specific companies or industries. Also, not all investors agree in their views of what constitutes positive or negative ESG characteristics and, as a result, an investment may include an ESG mutual fund or ETF which invests in securities that do not reflect the beliefs of any particular investor.

*Risks of Investing in Equity Funds.* Stock markets are volatile and can decline significantly and quickly over short or even long periods in response to adverse issuer, political, regulatory, market, or economic developments. In a diversified equity fund, the overall systematic (market risk) poses the greatest potential for losses in your account(s). In addition, equity investments may be subject to risk related to market capitalization as well as company-specific risk.

*Risk of Investing in International/Foreign Funds.* Foreign investing involves risks not typically associated with U.S. domestic investments, and the risks may be further amplified in emerging market countries. These risks may include, among others, adverse fluctuations in foreign currency values, as well as adverse political, social, and economic developments affecting one or more foreign countries. In addition, foreign investing may involve less publicly available information and more volatile or less liquid securities markets, particularly in markets that trade a small number of securities, have unstable governments, or involve limited industry.

*Risks of Investing in Fixed Income Funds.* In general, fixed income securities carry interest rate risk. As interest rates rise, bond prices usually fall, and vice versa. This effect is usually more pronounced for longer-term securities. The ability of an issuer of a bond to repay principal prior to a security's maturity can cause greater price volatility if interest rates change, and, if a bond is prepaid, a bond fund may have to invest the proceeds in securities with lower yields. Fixed income securities also carry inflation risk, credit risk (the risk of changes in the financial condition of an issuer) and default risk (the risk that the issuer may fail to pay its debts) for both issuers and counterparties. Unlike investing in individual bonds, typically bond funds do not have a set maturity date, so holding them until maturity to avoid losses caused by price volatility is not possible. In addition, investments in certain bond structures may be less liquid than other investments, and, therefore may be more difficult to trade effectively.

*Risks of Investing in Municipal Bond Funds.* The MIP Program portfolios may invest in the municipal bond market, which can be affected by adverse tax, legislative, or political changes, and by the financial condition of the issuers of individual municipal securities. Municipal bond funds normally seek to earn income and pay dividends that are expected to be exempt from federal income tax. If you are a resident in the state of issuance of the bonds held by the fund, interest dividends may also be exempt from state and local income taxes. Income exempt from regular federal income tax (including distributions from tax-exempt, municipal, and money market funds) may be subject to state, local, or federal alternative minimum tax. Certain municipal bond funds normally seek to invest only in municipal securities generating income exempt from both federal income taxes and the federal alternative minimum tax; however, outcomes cannot be guaranteed, and the funds may sometimes generate income subject to these taxes.

***If you are interested in learning more about the GPA Program, a complete description of the program, services and fees are available in VFA's Form ADV Part 2A, Appendix 1 – Wrap Fee Program Brochure for the GPS Program and GPA Program, investment advisory agreement, and account opening documents. These documents are available upon request from your IAR or by contacting VFA at 866-544-4968.***

## **Item 9 - Disciplinary Information**

We are required to disclose any legal or disciplinary events that are material to our clients or our prospective client's evaluation of our investment advisory business or the integrity of our management. The following are disciplinary events relating to the Firm and/or our management personnel:

On November 28, 2016, without admitting or denying the FINRA findings, the Firm submitted a letter of acceptance waiver or consent for the purpose of settling alleged NASD and FINRA rule violations that it failed to: (1) have a reasonable system or process/procedures designed to address, analyze or review the conflicts of interest in its compensation program or to ensure that balanced disclosures was provided to the investors regarding such compensation program, (2) to maintain adequate systems and procedures to supervise the sale of variable annuities to retail brokerage customers, (3) maintain supervisory procedures and training materials that provide registered representatives and principals guidance or suitability considerations for sales of different variable annuity share classes, including L-share variable annuities, (4) enforce supervisory procedures requiring that certain emails flagged by its email surveillance system be reviewed by designated Firm supervisors, (5) establish a reasonable system and procedures to supervise its complaint reporting responsibilities, and (6) failed to issue account notices at account opening and then on 36-month intervals for certain brokerage customers. The Firm was censured and fined \$1,750,000.

On June 3, 2019, without admitting or denying any findings of fact or conclusions of law, the Firm settled a matter with the Securities Enforcement Branch ("SEB") of the Hawaii Department of Commerce and Consumer Affairs. As part of the settlement, the Firm entered into a consent order with the SEB (the "Consent Order"), which states that the Firm failed to supervise a registered representative who had submitted a transaction without proper customer authorization. Pursuant to the Consent Order, the Firm paid a fine of \$10,000.

On July 28, 2020, the SEC issued an order regarding certain VFA mutual fund and mutual fund share class selection practices. Specifically, the SEC found that the Firm had not appropriately disclosed certain conflicts of interest due to its receipt of revenue sharing, avoidance of transaction fees, and receipt of 12b-1 fees, in violation of Section 206(2) of the Advisers Act. The SEC also

found that VFA did not adopt and implement written compliance 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, in violation of Section 206(4) of the Advisers Act and Rule 206(4)-7 thereunder. VFA neither admitted nor denied the SEC's findings.

Solely for the purpose of settling this proceeding, VFA consented to a cease-and-desist order, a censure, to pay to affected investors disgorgement of \$13,232,681 and prejudgment interest of \$2,211,072, and to pay a \$4.5 million civil monetary penalty. VFA also agreed to review and correct as necessary all relevant disclosure documents concerning mutual fund share class selection, revenue sharing, transaction fees, and 12b-1 fees, and to comply with certain other related undertakings as well.

On July 28, 2020, the SEC issued an order finding that the Firm failed to disclose to certain Florida teachers that the Firm's parent company, VALIC, provided cash and other financial benefits to a for-profit company owned by Florida K-12 teachers' unions in exchange for referring teachers to products and services offered by VALIC and the Firm, in violation of Sections 206(2) and 206(4) of the Advisers Act and Advisers Act Rule 206(4)-3 thereunder. The SEC also found that VFA did not adopt and implement written compliance policies and procedures reasonably designed to prevent violations of the Advisers Act and the rules thereunder, in violation of Section 206(4) of the Advisers Act and Rule 206(4)-7 thereunder. VFA neither admitted nor denied the SEC's findings.

Solely for the purpose of settling the proceeding, VFA consented to a cease-and-desist order, a censure, and to pay a civil monetary penalty of \$20 million. VFA also agreed to cap the management fee for the GPS Program at 45 basis points (0.45%) for participants currently enrolled in this program in 403(b) and 457(b) plans offered by Florida K-12 schools, and to also offer this rate to any 403(b) and 457(b) participants offered by Florida K-12 schools who enroll in the GPS Program through the Portfolio Director annuity within the next five years. This capped rate will remain in effect for such participants for the duration of enrollment in the GPS Program. VFA also agreed to comply with certain other related undertakings as well.

On January 8, 2021, the Firm completed an AWC with FINRA for the purpose of settling alleged FINRA rule violations that it failed to (i) establish a reasonably designed system and written supervisory procedures to monitor rates of variable annuity exchanges and implement corrective action in the case of inappropriate exchanges, violating FINRA Rules 2330(d), 3110, and 2010; (ii) reasonably supervise recommendations involving the investment of additional funds in an existing variable annuity, violating FINRA Rules 3110 and 2010, and (iii) timely report statistical and summary information for certain customer complaints during a specified period, violating FINRA rules 4530(d) and 2010. VFA neither admitted nor denied FINRA's findings. Solely for the purpose of settling the proceeding, VFA consented to a censure and a fine of \$350,000.

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

VFA is a wholly owned subsidiary of VALIC, which is a Texas-domiciled insurance company and an SEC-registered investment adviser. VALIC is primarily engaged in the offering and issuance of fixed and variable annuity contracts and combinations thereof and is licensed to issue annuities in 50 states and the District of Columbia. VALIC is an indirect, majority owned subsidiary of AIG. VFA is also a registered broker-dealer with the SEC and a member of FINRA. VFA is regulated by the Municipal Securities Rulemaking Board, and state securities and insurance regulatory bodies. VFA is also a member of the Securities Investor Protection Corporation established under the Securities Investor Protection Act of 1970. In this capacity, VFA may transact in various types of securities, including, but not limited to, stocks, bonds, variable investment products and mutual funds. VFA, as well as our financial advisors, receive separate compensation for securities transactions effected through the Firm.

- ACS is an indirect, majority owned subsidiary of AIG and an affiliate of the Firm. In its capacity as a registered broker-dealer, ACS acts as principal underwriter for the offer, sales and distribution of the variable annuity contracts issued by VALIC and its affiliates and as distributor of registered investment companies advised by VALIC.
- SAAMCo is an indirect, majority owned subsidiary of AIG and an affiliate of the Firm. SAAMCo serves as an administrator and investment sub-adviser to certain registered investment companies advised by VALIC.
- AIG Federal Savings Bank, an affiliate of the Firm, acts as custodian/trustee for employer-sponsored retirement plans for which the Firm provides enrollment, education, and advisory services to individual plan participants.
- VRSCO is a wholly owned subsidiary of VALIC and an SEC-registered transfer agent for registered investment companies advised by VALIC and SAAMCo. VRSCO is also a record keeper and service provider to certain retirement plans for which the Firm provides enrollment, education, and advisory services.
- VALIC Company I (the "VALIC Funds") is a registered investment company advised by VALIC and, with respect to certain funds, sub-advised by SAAMCo. The VALIC Funds are offered as underlying investment options within VALIC-issued variable annuity contracts and as mutual funds in employer-sponsored retirement plans for which VFA offers the GPS Program and GPA Programs, as applicable. For these funds, SAAMCo is the administrator and, for certain funds, an investment sub-adviser, ACS is the distributor, and VRSCO is the transfer agent.

The PD Freedom Advisor annuity, whether or not coupled with the GPA Program, generates higher revenues for VFA and VALIC in the aggregate than does MIP. We mitigate this conflict of interest, which exists at the Firm level, by paying IARs, who are responsible for making recommendations to clients, the same amount irrespective of whether the client is invested through MIP or GPA. There remains an incentive for an IAR to recommend that a client move out of a product where the IAR is not earning, or earning less, compensation (e.g., an old annuity product) and into an advisory product. VFA manages the potential for this conflict of interest by maintaining policies and procedures designed to ensure that IARs make recommendations that are in the best interest of the

investor in the context of the products and services offered by VFA. All transactions, including transfers from one product to another (such as MIP) are reviewed by the Supervision department to ensure the recommendation is in the client's best interest. Employees in the Supervision department do not receive variable compensation based on product sales. Additionally, VFA maintains programs for the internal review of these policies and procedures via internal auditing procedures, other compliance related review and surveillance activities, and from time-to-time VFA engages outside consultants to review, evaluate, and recommend changes to existing policies and procedures

In our capacity as a broker-dealer, we provide to our clients a variety of products and services for which we are compensated. To the extent that an advisory client chooses to utilize our services as a broker-dealer, VFA and our registered representatives may earn compensation in the form of brokerage commissions in addition to advisory fees. Our associated persons may recommend to you the purchase or sale of investment products in which we or a related entity may have some financial interest, including, but not limited to, the receipt of compensation.

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

VFA has adopted a Code of Ethics ("Code") for which it periodically reviews and updates. VFA will provide a current copy of its Code to clients and prospective clients upon request by contacting us at (866) 544-4968.

VFA, as an investment adviser, has a fiduciary duty to act solely for the benefit of its advisory clients. The Code requires honest and ethical conduct by all of our supervised persons, compliance with applicable laws and governmental rules and regulations, the prompt internal reporting of violations of the Code to an appropriate person or persons identified in the Code, and accountability for adherence to the Code. The Code is designed to address and mitigate situations involving a real or apparent conflicts of interest between the Firm or its IARs, and clients. While it is not possible to identify all possible situations in which conflicts might arise, this Code is designed to set forth our policy regarding the conduct of our supervised persons in those situations in which conflicts are most likely to develop.

Supervised persons are expected to adhere to the Code and are also expected to follow procedures for reporting any violations of the Code.

For access persons, VFA requires that certain securities transactions be disclosed and/or reported. Access persons are any of VFA's supervised persons who have access to non-public information regarding any investment advisory client's purchase or sale of securities, or nonpublic information regarding the portfolio holdings of any reportable fund (as defined in the Code) or any person who is involved in making certain types of securities recommendations to investment advisory clients, or who has access to such recommendations that are non-public.

In our capacity as a broker-dealer, we provide to our clients a variety of products and services for which we are compensated. If an advisory client chooses to utilize our services as a broker-dealer, VFA and our associated persons may earn compensation in the form of brokerage commissions in addition to advisory fees. Our associated persons may recommend to you the purchase or sale of investment products in which we or a related entity may have some financial interest, including, but not limited to, the receipt of compensation.

## **Item 12 - Brokerage Practices**

VFA does not select or recommend broker-dealers for securities transactions in the MIP, GPS and GPA Programs and does not determine the reasonableness of broker-dealer's compensation.

For the MIP Program, NFS is the clearing firm for MIP accounts, meaning that all trades are placed through NFS, and it is also the custodian of MIP accounts. A portion of the Platform Fee (which is a component of the Program Fee) is paid to NFS for its services in connection with MIP accounts. While the Platform Fee includes custodial services for most accounts, NFS will separately charge an annual IRA custodial fee for services rendered as trustee of IRA accounts.

For the GPS and GPA Programs, transactions are recommended based on the methodologies provided and controlled by Morningstar (as independent financial expert) and are processed through VFA's affiliated recordkeeper, VALIC/VRSCO.

***Research and Other Soft Dollar Benefits.*** VFA does not receive research or other products or services, commonly referred to as "soft dollar benefits" from broker-dealers or other third parties in connection with client securities transactions.

***Brokerage for Client Referrals.*** VFA does not select or recommend broker-dealers based on the receipt of client referrals.

***Directed Brokerage.*** VFA does not engage in this practice.

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

### **(1) MIP**

***Review of Accounts:*** The Firm engages in ongoing monitoring of the programs. The Firm, through the Investment Group, periodically meets with Envestnet to review the MIP portfolio models' investment performance, Strategists and other matters related to MIP. For most MIP portfolios (except for the Selected MIA Portfolios), Envestnet will monitor your account on an ongoing basis

and will rebalance your account periodically. The Firm relies on Envestnet and the Strategist (and in certain cases, the separate account manager) to ensure the tools and analyses are operating properly and consistent with your investment profile.

For the Selected MIA Portfolios, the separate account manager will manage your account on an ongoing basis, rebalance your account periodically and may include reasonable portfolio restrictions. The IAR relies on the separate account manager to manage your portfolio and on Envestnet PMC, in consultation with the Firm, to conduct due diligence on the separate account manager and to ensure the tools and analyses are operating properly. Diversification, asset allocation and rebalancing strategies do not ensure a profit or guarantee against a loss.

**Written Reports:** Clients receive quarterly written reports from Envestnet that itemize the activity in your MIP Account during the preceding quarter, the current asset allocation, and the market value of the Account. The report will also provide market commentary, a breakdown of investments, and an account summary that includes the beginning balance, end-of-quarter balance, and year-to-date values. Additionally, NFS will provide you trade confirmations and quarterly account statements for your Account. You will also receive all statements and forms required to be provided to you for tax reporting purposes.

## **(2) GPS Program**

**Review of Accounts:** For the GPS Portfolio Advisor program VFA does not include any periodic review of accounts. It is a one-time recommendation for the allocation of your account value among the fixed and variable investment options in your VALIC PD variable annuity or among the mutual funds in your mutual fund retirement program account for which you may choose to implement or reject.

For the GPS Portfolio Manager program, at the end of each calendar quarter, the investor profile information used to generate your retirement income forecasts and investment advice and to perform asset management is sent to you for review. Further, in the quarter prior to the annual update to your GPS Portfolio Manager program retirement income forecast and investment advice, VFA will contact you to determine if updates to your GPS Client Profile information are required. Periodically VFA will send you reminders to go online, or contact your IAR or the Asset Management Center, to update your GPS Client Profile information. It is important for you to contact your IAR should you have any changes in your financial situation or related life events to ensure that your GPS Client Profile remains up to date.

When advice is generated for the account(s) that are managed under the GPS Portfolio Manager program (the initial advice, the automatic annual advice, and any ad hoc advice that you may request), the account(s) will be reviewed to determine whether transactions are required to allocate your assets per the target allocations of the model portfolio to which your account is being managed.

Approximately every 91 days, beginning with your GPS enrollment date, the accounts you have managed under the GPS Portfolio Manager program are rebalanced as necessary to bring the allocations back in line with the target allocations of your assigned model portfolio. The rebalancing schedule does not change even if you request investment advice.

**Written Reports:** Clients in the GPS Portfolio Advisor program do not receive written reports. This program offers web-based advice enabling an individual to make investment decisions.

Clients in the GPS Portfolio Manager Program will receive a regular VALIC quarterly statement that shows transactions for the prior quarter, fees imposed during that prior quarter, and current asset allocation. These clients will also receive a Quarterly Advice Statement ("QAS") and IPS that are described below.

The QAS is a reminder of your most recent retirement income forecast, recommendations, and the investment advice used to manage your assets. It is also a reminder of the GPS Client Profile information and your VALIC account balance information that were used as inputs to generate your most recent advice, and it shows the fees for the calendar quarter just ended. You will usually get the QAS during the month following the calendar quarter end. You will receive a QAS for each plan that you have managed under GPS Portfolio Manager as of the calendar quarter that just ended.

The IPS reflects the retirement income forecast, recommendations and investment advice provided by the Firm. Any time your advice is regenerated – whether as part of the automatic annual regeneration, or as requested by you such as, for example, when you have updated your GPS Client Profile information, a new IPS will be generated to reflect the retirement income forecast, recommendations, and investment advice to which your assets will be managed. The IPS will also show the GPS Client Profile information and your VALIC account balances that were used as inputs for generating this advice.

## **(3) GPA Program**

**Review of Accounts:** As frequently as monthly, Morningstar analyzes the performance trends of all the asset classes included in their model portfolios. When updates to the model portfolios are implemented, the investment allocations within the GPA Program are reviewed and reallocated to the new targets as necessary.



**Written Reports:** Clients in the GPA Program receive a quarterly VALIC account statement that shows details about their PD Advantage or PD Freedom Advisors account(s), including transactions for the prior quarter, fees imposed during that prior quarter, and current asset allocation. The VALIC quarterly statement will also show you which model portfolio those assets were being managed to at that time. You will periodically receive confirmation statements from VALIC that reflect the transactions during the period and the model portfolio asset allocation targets associated with your GPA Program account(s).

#### **(4) Financial Planning.**

**Review of Accounts:** The financial planning service generally includes the delivery of a one-time written financial plan, where applicable, and does not include ongoing monitoring of accounts. No additional monitoring or reports are provided unless the client requests a revision to the plan within a specified time period following delivery.

### **Item 14 - Other Compensation**

VFA maintains a program under which eligible IARs are able to attend an annual conference based on their achievement of certain levels of aggregate compensation from the sale of securities, insurance products, and advisory fees received from advisory accounts. Certain of the Firm's top earning IARs are designated as President's or Platinum President's Cabinet members and receive additional compensation and benefits. Qualification for the Advisor Leadership Conference or the President's or Platinum President's Cabinet is based on total compensation as described above and is not based on any specific product or category of products. However, because eligibility for the conference and the President's or Platinum President's Cabinet is based on the IAR's total compensation, IARs are incentivized to have clients purchase additional products and services and add assets to existing, products and services, and to transfer assets to products and services that generate higher levels of compensation for the IAR.

In addition, the Firm may implement programs under which IARs may be eligible to win non-cash awards, trips and other non-cash benefits offered by the Firm for certain sales efforts relating to enrollments in employer-sponsored retirement plan accounts, among other factors. Similar to other sales-based programs, such non-cash awards are not based on the sale of any specific product or category of products. These programs will not change the fees that you pay for advisory services.

With respect to each of the Firm's advisory programs, a portion of the advisory or program fees you pay to the Firm is paid to your IAR. Generally, the percentage of the fees that the Firm pays to your IAR from your GPA or MIP programs increases based on a rolling 12-month period as their aggregate compensation from both the sale of insurance/securities products and receipt of advisory fees reaches certain thresholds during that rolling time period. This increase in compensation to the IAR will not increase the advisory fee you pay to the Firm but does trigger the same conflict described in the previous two paragraphs.

The Firm and/or its affiliates receive payments from fund sponsors and service providers that voluntarily choose to participate in, and that are designed to defray the costs associated with, Firm-sponsored or VALIC-sponsored conferences, seminars, training or other educational events where such funds or other related services are discussed and that are attended by our employees or employees of our affiliates and/or plan sponsors and plan consultants.

Retirement plan sponsors that have selected the Firm to make its advisory services available to plan participants may disseminate disclosures about the Firm. Depending on the circumstances, such disclosures may be deemed to include endorsements of the Firm. The Firm does not compensate plan sponsors for endorsements of its advisory services or products. An affiliate of the Firm may provide administrative services to retirement plans and will receive compensation from such retirement plans for these administrative services; however, the receipt of such compensation is not contingent upon or otherwise related to the provision of advisory services by the Firm to plan participants.

NFS, the Firm's clearing broker, provides the Firm all net profits on trading errors in MIP accounts, which gives the Firm an incentive to use its account at NFS for trade execution.

**Sponsorship Activities of the Firm and its Affiliates.** The Firm and its Affiliates from time to time enter into agreements with, and pay compensation to, various organizations and associations, including trade associations, unions, and other industry groups, that provide various retirement services to plan sponsors and/or plan participants. These organizations may sponsor and invite the Firm and/or its Affiliates to participate in, educational conferences and seminars for retirement plan participants who, through their retirement plan, have access to the advisory programs offered by the Firm. In some instances, these organizations may endorse and/or promote the Firm and/or its Affiliates' products and/or services, and otherwise provide the Firm and/or its Affiliates with marketing opportunities. Our sponsorship payments to these organizations for marketing and advertising opportunities provide an incentive for the organizations to promote the Firm's and/or the Affiliates' advisory services and products and may result in additional annuity sales to plan participants. Certain of these arrangements constitute a compensated endorsement of our products and services.

**Referrals to Third Parties.** For certain plan sponsor clients of VALIC, VFA has authorized its representatives to solicit, refer and market the services of certain third-party registered investment advisors ("Third-Party Advisors") to the plan sponsors' participants in accordance with Rule 206(4)-3 of the Advisers Act. VFA and VFA's representatives receive referral fees from the Third-Party Advisors based on these solicitation and marketing activities. The compensation is paid as an ongoing cash payment calculated as a percentage of the advisory fees charged by the Third-Party Advisors for the participants' enrollment in the advisory program offered by the Third-Party Advisor. Because VFA is engaged by and paid by a Third-Party Advisor for the referral, any recommendations

regarding such Third-Party Advisor presents a conflict of interest. VFA is required to provide a disclosure to all referred clients regarding the role of VFA and the representative as a referral agent, the compensation to VFA, and other terms of the relationship between VFA and the Third-Party Advisor, which helps mitigate this conflict. Separate from these solicitation, referral, and marketing activities, VFA's representatives may offer these plan participants financial planning services as discussed in Item 4 of this Brochure.

**Charitable Donations.** VALIC, VFA, its Affiliates and/or its Supervised Persons from time to time make cash or non-cash donations to charitable organizations or societies organized as 501(c)(3) charities, including charitable organizations associated with potential and/or actual clients of VFA and/or VALIC. These charitable donations are provided in support of non-profit causes identified by that organization, and disbursements of such donations are done under the direction of the charitable organization, and not VFA or VALIC. VFA and VALIC have procedures to identify, address and mitigate potential conflicts.

## **Item 15 - Custody**

### **(1) MIP**

The Firm has "custody" of client assets as defined in Advisers Act Rule 206(4)-2 because it is authorized to deduct advisory fees from a client's account. Transactions within your MIP account will be executed through your account with VFA. All transactions in MIP are cleared through NFS. NFS also provides custodial services for assets in advisory accounts and separately serves as trustee of IRA accounts, as applicable. VFA itself will not take custody of your advisory account assets. However, VFA does have authority pursuant to the advisory agreement between the Firm and the client to deduct advisory fees from your account.

Envestnet will furnish you a quarterly written report that itemizes the activity in your MIP account during the preceding quarter, the current asset allocation, and the market value of the account, which will also reflect the deduction of the Program Fee. The report will also provide market commentary; a breakdown of investments within each asset class; and an account summary that includes the beginning balance, end-of-quarter balance, and year-to-date values. Investment account assets will be valued based on the NAV of the mutual funds and the market value or NAV, as appropriate, of other investments in which your account assets are invested. NFS will mail you trade confirmations and quarterly account statements for your program account investments. You will also receive all statements and forms required to be provided to you for tax reporting purposes.

VFA urges you to carefully review such statements and compare such official custodial records to the account statements that we provide to you. Our statements may vary from custodial statements based on reporting dates. You should contact your IAR if you have any comments or questions regarding these statements.

### **(2) GPS and GPA Programs**

The Firm has "custody" of client assets as defined in Advisers Act Rule 206(4)-2 because (1) it is authorized to deduct advisory fees from a client's account; and (2) related persons maintain custody of client assets within a variable annuity contract or employer-sponsored retirement plan. The Firm's parent company, VALIC, maintains custody of client assets invested in variable annuity contracts that it issues, and AIG Federal Savings Bank ("AIGFSB") is the custodian for client assets in employer-sponsored mutual fund retirement plans, for which VRSCO is the plan recordkeeper. Because the Firm has "custody" of client assets as defined in Advisers Act the Firm undergoes an annual surprise custody exam by an independent public accountant and receives an annual internal control report from the related person's independent public accountant.

GPS and GPA transactions within your PD account(s) will be executed through your variable annuity account(s) with VALIC. VALIC will mail you trade confirmations and quarterly account statements that itemizes the activity in your variable annuity account during the preceding quarter, the current asset allocation, and the market value of the account. GPS transactions within your employer-sponsored retirement plan account invested in mutual funds will be executed through your account for which VRSCO is the plan record keeper. AIGFSB is the custodian for these accounts. VALIC sends a quarterly account statement that itemizes the activity in your program account during the preceding quarter, the current asset allocation, and the market value of the account.

VFA urges you to carefully review these statements; you should contact your IAR if you have any comments or questions.

## **Item 16 - Investment Discretion**

**MIP Program.** The Firm has discretionary authority over the MIP Program. The Strategists, who are responsible for the design and management of the MIP portfolio models, exercise investment discretion over clients' accounts. The Strategists include Envestnet PMC, Blackrock, Russell Investments and CLS Investments. The Strategists are responsible for the selection, evaluation, and review of the investment options offered in their respective model portfolios and making changes as they deem appropriate. The Firm periodically provides input regarding investment options recommended by the Strategists. The Firm, through an investment group comprised of Firm personnel, also periodically meets with Envestnet and the Strategists to review the model portfolios' investment performance, individual mutual funds, mutual funds added to or removed from the model portfolios by the Strategists, operational and related issues, and other matters related to MIP. Each of the Strategists is responsible for developing a customized plan of investment options based on your input regarding your financial situation and related information, and once the plan is implemented, providing ongoing monitoring of your account for conformance to the plan which will include rebalancing your account periodically to maintain the asset allocation. You must provide a signed Statement of Investment Selection, which incorporates the investment advisory agreement, before we can begin any discretionary trading in your account.

*GPS Portfolio Advisor.* The GPS Portfolio Advisor program is a nondiscretionary program. Once you have submitted the necessary inputs to the GPS Client Profile, you will receive a one-time recommendation for the allocation of your account value, and future contributions, among the fixed and variable investment options in your VALIC variable annuity or among the investment options available in your mutual fund retirement program account. It is then your decision whether to implement the investment advice in whole, in part, or not at all, as VFA provides non-discretionary investment advice only in this program and does not engage in any account management or monitoring of assets for this program. Consistent with the SunAmerica Opinion, Morningstar is the independent financial expert to the GPS Program, and provides the advice methodologies that are used to produce investment advice for participants in GPS Portfolio Advisor.

*GPS Portfolio Manager.* The Firm has discretionary authority over the program which includes ongoing automated asset management services such as automatic implementation of the investment advice, periodic portfolio rebalancing, automatically generated annual updates to advice and annual retirement income forecasts for your review, portfolio monitoring and special investment advice statements. Consistent with the SunAmerica Opinion, Morningstar is the independent financial expert to the GPS Program, and provides the advice methodologies that are used to produce the investment advice implemented on behalf of participants in GPS Portfolio Manager. Additionally, you may also receive personalized service from VFA IARs in person or by telephone. You must provide a signed investment advisory agreement before we can begin any discretionary trading in your account.

*GPA Program.* The Firm has discretionary authority over the program which includes ongoing automated asset management services such as automatic implementation of the investment advice, periodic portfolio reallocations and rebalancing, and portfolio monitoring. Consistent with the SunAmerica Opinion, Morningstar is the independent financial expert to the GPA Program and provides the advice methodologies that are used to produce the investment advice implemented on behalf of participants in the GPA Program. You must provide a signed investment advisory agreement before we can begin any discretionary trading in your account.

*Financial Planning.* No investment discretion granted to, or exercised by, VFA in connection with the financial planning services that it offers.

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

*Voting Client Securities.* We will not vote, or give any advice about how to vote, proxies for securities in advisory clients' accounts.

The Strategists or investment managers responsible for the management of their respective portfolios are designated to vote proxies on your behalf unless you direct us otherwise in writing. Clients may contact your IAR with questions about a particular solicitation.

## **Item 18 - Financial Information**

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about VFA's financial condition. VFA has no financial condition that impairs its ability to meet contractual and fiduciary commitments to clients and has not been the subject of a bankruptcy petition.