



## **Form ADV Part 2A, Appendix 1 Wrap Brochure IMS Select Portfolios Discretionary Wrap Program**

***Effective January 1, 2021***

SEC File No. 801 - 29892  
Avantax Advisory Services, Inc.

This Form ADV Part 2A, Appendix 1 Wrap Brochure provides information about the qualifications and business practices of Avantax Advisory Services, Inc. ("AAS") which uses the trade name Avantax Advisory Services. If you have any questions about the contents of this brochure, please contact us at (972) 870-6000. This information has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. Additional information about Avantax Advisory Services is also available at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Please note that registration as an investment adviser is required by securities laws and does not imply a certain level of skill or training. You should review this brochure and consider its contents before investing in a program offered by or through AAS.

Avantax Wealth Management<sup>SM</sup> is the holding company for the group of companies providing financial services under the Avantax name. Securities offered through Avantax Investment Services<sup>SM</sup>, Member FINRA, SIPC. Investment advisory services offered through Avantax Advisory Services<sup>SM</sup>. Insurance services offered through Avantax Insurance Services<sup>SM</sup> and Avantax Insurance Agency<sup>SM</sup>. 3200 Olympus Blvd., Suite 100, Dallas, TX 75019 972-870-6000

## **Item 2: Summary of Material Changes**

Although the following are not considered “material changes”, they are important updates to our Form ADV Disclosure Brochure. Changes since our November 2020 version include:

- AAS no longer receives revenue sharing for assets that are designated as NTF/TF funds by our Custodian as previously disclosed in our September 2019 ADV; therefore, a reference to NTF/TF revenue sharing in the Transfer Cost Credits section which is no longer applicable was removed.

Item 3 Table of Contents	
Item 2: Summary of Material Changes .....	1
Item 4: Services, Fees and Compensation .....	3
Avantax Advisory Services .....	3
Assets Under Management .....	3
Other Fee-Based Investment Management Solutions ("IMS") Programs .....	3
IMS Select Portfolios Wrap Program .....	3
Wrap Program Services.....	5
Wrap Program Fees .....	6
Private Placement Insurance Program .....	9
Private Placement Insurance Program Fees .....	9
Margin in Fee-Based Accounts.....	9
Assets that Transfer In .....	9
Rebalancing.....	9
IMS Select Portfolios Wrap Program Approved Securities .....	9
Information About Your Account.....	10
Investment Discretion .....	10
Early Redemption Fees .....	10
Termination of Agreement .....	10
AAS Responsibilities.....	11
Item 5: Account Requirements and Types of Clients.....	11
Item 6: Portfolio Manager Selection and Evaluation.....	11
Due Diligence Process: IMS Select Portfolios.....	11
Investment Manager Search and Selection .....	11
Calculating Performance.....	12
Investment Manager Monitoring and Review .....	12
Due Diligence Process for AAS's Asset Allocation Models .....	13
Performance-Based Fees .....	13
Types of Investments and Risks .....	13
Voting Client Securities .....	16
Item 7 Client Information Provided to Portfolio Managers .....	16
Item 8 Client Contact with Portfolio Managers .....	16
Item 9: Additional Information.....	16
Quarterly Performance Reports.....	17
CONFLICTS OF INTEREST.....	17
Qualified Plan Rollovers .....	17
Conflicts of Interest: Direct Account Quarterly Fees ..	18
Conflicts of Interest: Third-Party Compensation .....	18
Compensation from our Custodian .....	18
Specific Financial Benefits from Custodian .....	19
Cash Sweep Program .....	19
Bank Deposit Sweep Program & Related Conflicts of Interest .....	20
Conflicts of Interests in the Bank Sweep Program.....	21
Money Market Sweep Program.....	22
Technology Credits .....	22
Transfer Cost Credits .....	22
Deconversion Cost Credits.....	22
Credit Interest for Non-Sweep Cash Balances.....	23
Mark-up on the Schedule of Fees.....	23
Interest on Cash Debit Balances .....	23
No-Fee Brokerage IRA .....	23
Third-Party Compensation on Open Accounts .....	24
Compensation from our Educational Partners .....	24
Third-Party Compensation from Other Sources .....	26
Pledging Assets: Non-Purpose Loans.....	26
Additional Compensation to Advisors .....	26
Restricted Equity Awards to Certain Advisors .....	26
Brokerage Practices .....	27
Information about Custodian .....	27
Principal Trading, Agency Cross Transactions and Directed Brokerage.....	27
Fixed Income .....	27
Best Execution .....	28
Trade Allocation .....	28
Trade Errors.....	28
Other Information .....	28
Client Consent .....	28
Privacy Statement .....	28
Code of Ethics .....	28
Client Referrals & Other Compensation.....	29
Appendix 1 Schedule of Fees for Accounts .....	31
Appendix 2 Brochure Supplement .....	32

## Item 4: Services, Fees and Compensation

Pursuant to SEC Rule 204-3 promulgated under the Investment Advisers Act of 1940, as amended (“Advisers Act”), Avantax Advisory Services, Inc. presents this Form ADV Part 2A, Appendix 1 Wrap Brochure (“Wrap Brochure”) which provides the required Form ADV Part 2A, Appendix 1 disclosures.

### Avantax Advisory Services

Avantax Advisory Services, Inc. (“AAS”) was established in 1987 and was formerly known as HD Vest Advisory Services, Inc. AAS is a wholly-owned subsidiary of Avantax Wealth Management, Inc. (“AWM”) and an indirect subsidiary of Blucora, Inc., a publicly traded company (Nasdaq: BCOR). AAS is registered with the U.S. Securities and Exchange Commission (“SEC”) as an investment adviser and was created to offer ongoing consultative investment management services through investment advisory programs.

AAS is an affiliate of Avantax Investment Services, Inc. (“AIS”), formerly known as HD Vest Investment Securities, Inc., a broker-dealer registered with the SEC and a FINRA member firm. AIS generally provides brokerage, custody and execution services through a clearing arrangement with National Financial Services LLC (“Custodian”), a non-affiliated firm, member NYSE, SIPC and a Fidelity Investments® Company. Your Advisor may be affiliated with both AAS and AIS for the purpose of offering you a broader range of financial services. AAS is also affiliated with Avantax Insurance Agency<sup>sm</sup>, Avantax Insurance Services<sup>sm</sup>, (collectively referred to as Avantax Insurance) and Honkamp Krueger Financial Services, Inc., an affiliated investment adviser registered with the SEC.

Depending on factors such as your Advisor’s licensing there are restrictions in the programs and types of investments that can be offered to you. In addition, an Advisor can elect not to offer certain programs based on subjective and objective factors including their investment philosophy or individual professional preferences. AAS’s and our Advisors’ investment advice is tailored to our clients’ individual needs and limitations may be placed on trading restrictions requested by clients.

### Assets Under Management

As of December 31, 2019, AAS managed \$16,378,452,956 of Client assets on a discretionary basis (62,288 accounts) and \$9,319,748,684 of Client assets on a non-discretionary basis (32,112 accounts) for a total of \$25,698,201,640 in assets under management and 94,400 accounts in its various advisory programs.

### Other Fee-Based Investment Management Solutions (“IMS”) Programs

For additional information about other programs offered by AAS, please ask your Advisor for further details.

These IMS programs are:

- **IMS Flex Choice:** IMS Flex Choice Portfolios are offered in a wrap and non-wrap version with a minimum investment amount of \$15,000 for each.
- **IMS Direct (f/k/a VestAccess):** A digital managed fully discretionary advisory program investing only in low-cost mutual funds and exchange-traded funds for accounts with balances as low as \$5,000.
- **IMS Access, IMS Unified Choice and IMS Portfolio Choice:** Wrap-free programs utilizing unaffiliated third-party money managers with a variety of investment styles, objectives and areas of expertise available to clients. Account minimums for these three programs start at \$25,000 (IMS Portfolio Choice). Program minimums are \$250,000 for Unified Choice, Fixed Income and \$500,000 for Unified Choice, Diversified Portfolio and \$100,000 for IMS Access.
- **IMS Prime:** A fully managed wrap-free program offering diversified asset allocation models for balances between \$5,000 and \$25,000 that invests solely in exchange-traded funds.
- **IMS Fee-Based Annuity:** A discretionary program offering ongoing investment management and sub-account investment options for fee-based variable and index annuities. The minimum initial investment is \$25,000.

### IMS Select Portfolios Wrap Program

IMS Select Portfolios are fully diversified asset allocation models invested in pre-selected models of mutual funds and exchange-traded funds (“ETFs”), together “Approved Securities”. This Wrap Program also offers access to

structured products. The data included in your Statement of Investment Selection ("SIS"), including your risk tolerance, financial information, and investment objectives is referred to as your "Client Risk Profile." The Client Account Agreement is also included in the SIS. Client selects a model based on their Client Risk Profile and chosen management strategy. IMS Select Portfolios are available in Managed, Passive, Dimensional, Dimensional-ESG, Dimensional-SRI, Russell Tax Managed, Income, Global, ETF, Small, Tax-Smart, U.S. or Blended strategies and can generally be customized to include municipal bond funds for increased tax sensitivity.

AAS monitors market conditions and performance of the IMS Select Portfolios and makes changes to the models as needed. When AAS changes the models, positions in the Client's Account can be sold and/or new positions purchased to meet the new model selections. The IMS Select Portfolios are automatically rebalanced on a schedule determined by AAS. Client understands that for certain Accounts the replacement of securities in the model, or the automatic rebalancing feature may have tax consequences including taxable gains or losses on the sale of securities. The minimum initial investment in the Program is \$25,000. AAS can elect to waive Account minimums in their judgment.

The IMS Select Portfolios Program is a wrap fee program where you pay a single fee for trade execution and portfolio management services. Wrap fee programs differ from other advisory programs since the fee structure for wrap programs is all-inclusive. For non-wrap programs clients pay trade execution costs in addition to the Program Fees.

You are required to open a brokerage account with AAS's chosen custodian, National Financial Services LLC, member NYSE and SIPC, a Fidelity Investments® Company ("Custodian"), to participate in the Wrap Program, and all trades are referred to AIS, our affiliated broker-dealer under common ownership, for execution.

To participate in the Wrap Program, your Advisor gathers information regarding your financial situation and assists you in completing the Statement of Investment Selection ("SIS"). The Brokerage Client Agreement, the Avantax Disclosures' Packet and the Schedule of Fees are collectively referred to as the "Brokerage Agreement" and set forth the terms under which brokerage services are provided to your Account. The Client Account Agreement is also included in the SIS. All documents in the Brokerage Agreement packet are provided at or shortly after account opening. (A partial list of the fees most applicable to your Account are included in Appendix 1 at the end of this Wrap Brochure.)

AAS and your Advisor rely on the information you provide to your Advisor, and it is important that you keep your information current. You have an ongoing obligation to notify your Advisor if there are any changes to your financial situation or the information provided, including information relevant to your investment objectives or risk tolerance. You must also inform your Advisor if there is other information not reflected on the SIS that is relevant to assessing your financial situation, investment objectives or risk tolerance (for example, anticipated large expenditures in the future or short-term cash needs). The data included in your SIS, including your risk tolerance, financial information, and investment objectives is referred to as your "Client Risk Profile." Your Advisor will update your Client Risk Profile with AAS, Custodian and Envestnet, as applicable.

Performance reports and other services regarding your Account may be provided by Envestnet Asset Management, Inc., a Registered Investment Adviser ("Envestnet"). The services provided by Envestnet depend on your selected advisory program and are stated throughout the applicable Disclosure or Wrap Brochure.

Your Advisor serves as portfolio manager for a portion of your IMS Select Portfolios Account if you choose to include structured products. Other than these structured products, your Advisor has no discretion in the Account as it is managed by AAS. Generally, your Advisor evaluates the universe of Approved Securities (or in this case, a subset of structured products) evaluated during their due diligence process. Not every Advisor has the same experience when managing investment portfolios, and you should carefully consider this when choosing the IMS Select Portfolios Wrap Program. Your Advisor's Form ADV Part 2B Supplemental Brochure ("Form ADV Part 2B") provides additional background on your Advisor's experience. You will also find additional information on AAS, our affiliates and your Advisor on Investor.gov, a website sponsored by the SEC.

The "Structured Products Account" (i.e., the portion of your IMS Select Products Account managed directly by

your Advisor) is limited to structured products within our Approved Products and is limited to amounts that we deem suitable for your Client Risk Profile. The Structured Products Account is considered part of your Billable Account Value, as defined below, and is managed by your Advisor on a non-discretionary basis.

Structured investments are available in various maturities as outlined in the offering document for the product. Due to these restrictions, the portion of your Account allocated to the IMS Select Portfolio model will be rebalanced independent of any structured products in the Account. Only the IMS Select Portfolio model will be rebalanced back to the original target allocations of the model.

Once a structured investment matures, you and the Advisor can determine how to reinvest or withdraw the proceeds, and you may fully rebalance your Account at that time. The minimum Account balance required to include an allocation to a structured investment is \$100,000. The minimum investment in a structured investment is \$1,000.

Structured products are securities derived from or based on a single security, a basket of securities, an index, a commodity, a debt issuance and/or a foreign currency. There are many different types of structured products. Some structured products offer full protection of the principal invested, while others offer limited or no protection of the principal.

Most structured products pay an interest or coupon rate above the prevailing market rate. They also limit the upside participation in the underlying asset. Structured products have a fixed maturity, and some, but not all, are listed on a national securities exchange. Some are very thinly traded and offer limited liquidity. Please read the offering document carefully if you decide to invest in structured products and ask your Advisor questions until you feel comfortable with this decision.

Income tax liabilities may result from the sale of securities within your Account unless the Account is otherwise tax sheltered or tax deferred. Income tax liabilities directly reduce investment returns. You are responsible for all tax liabilities arising from the sale of securities within your Account.

You may incur short-term redemption fees upon the liquidation of a mutual fund position for purposes of rebalancing or the replacement of one fund for another fund in the portfolio. AAS will attempt to have these fees waived at the time of redemption, but waiver is at the sole discretion of the mutual fund sponsor.

If your account is a retirement account and subject to the Employee Retirement Income Security Act of 1974, the model portfolios will be managed by AAS as an ERISA 3(38) Investment Manager. AAS will have full authority as your agent and attorney-in-fact to manage the assets in your account on a fully discretionary basis. For all services, this discretionary authority includes the authority, without first consulting you, to determine the portion of assets in your account that shall be allocated to each investment or asset class and to change the allocation of assets as necessary. to take any and all other actions on your behalf that AAS determines is customary or appropriate for a discretionary investment adviser to perform. This includes the authority to buy, sell, select, remove and replace Approved Securities (approved mutual funds, ETFs, and structured products) for the Account. AAS does not have the authority to withdraw funds or securities from your Account other than for payment of quarterly management fees as agreed to in writing by you.

### **Wrap Program Services**

AAS and your Advisor provide certain services to Wrap Program Accounts. These services listed below are not an exhaustive list.

Provided by Advisor:

- Client education on the features of a fee-based investment management strategy
- Evaluate the suitability of the Account on an initial and ongoing basis
- Gather data to be used in the preparation and implementation of the investment portfolio
- Assist clients with the completion of the SIS
- Present portfolio recommendations and/or asset allocations based on the information you provided

- Initial and on-going evaluation of investment and model recommendations
- Complete other paperwork required to open Account
- Facilitate Account transactions
- Conduct annual Account reviews
- Answer questions regarding your Account or the Program
- Explain investment decisions and discuss why rebalancing may be necessary
- Deliver and review Quarterly Performance Reports
- Periodic review of your investment objectives, trading activity, and portfolio

Provided by AAS for all Wrap Program Accounts:

- Open Account upon receipt of paperwork
- Provide Quarterly Performance Reports to Advisor
- Calculate and collect the Program Fee
- Facilitate disbursement requests and performing administrative and middle office functions
- Maintain registrations of AAS and Advisors with the SEC and state securities regulators
- Prepare and update required registration forms, disclosure forms and this Wrap Fee Brochure
- Supervise investment activities of Advisors conducted through AAS
- Arrange for execution of trades and custody of assets in your Account
- Rebalance Account as needed

AAS will, in its sole judgment, delegate or contract with third parties for the performance of all or a portion of the services provided to clients participating in advisory programs, including without limitation the authority to determine the securities to be purchased, held and sold for client Accounts, calculation of performance history, preparation of quarterly performance reports, billing calculations, and the implementation of securities' trading decisions, to one or more affiliated or unaffiliated third parties.

### Wrap Program Fees

You pay an annual Wrap Program Fee for the IMS Select Portfolios Program. The Wrap Program Fee is negotiable subject to the maximum annual fee of 2.3%. AAS and your Advisor price their services based on the total compensation they expect to receive from the Account. Clients should make sure that they fully understand the services provided by AAS and the Advisor and all fees and compensation associated with the Account. The Wrap Program Fee as agreed upon between you and your Advisor is documented in your SIS.

The Wrap Program Fee is automatically deducted from your Account, and it is identified on your Custodian Account statement. The Wrap Program Fee is charged only one quarter in advance, therefore, there is no long-term commitment or contractual obligation to continue using the Wrap Program. Program Fees for non-IRA accounts can be paid from another AAS or AIS account as well, but an ERISA retirement account or IRA account cannot pay fees for any other Account.

The Wrap Program Fee you pay includes your custodial and safekeeping fees, investment advice, reporting and, the cost to execute trades in your Account.

The Advisor recommending the Wrap Program receives compensation as a result of your participation in the Wrap Program. The amount of this compensation may be more or less than what the Advisor would receive if you participated in other available IMS Programs or paid separately for investment advice, brokerage and other services. ***The Advisor has a financial incentive to recommend the IMS Select Portfolios Wrap Program over other programs and services (see also "Conflicts of Interest" under Item 14, Client Referrals & Other Compensation).*** AAS retains a portion of the Wrap Program Fee and the remaining portion of the fee is paid to your Advisor.

The Wrap Program Fee can be either a tiered-fee based on the Billable Account Value you have in the Wrap Program and in your Related Accounts (as defined below) or a flat annual percentage not to exceed 2.3% of the

#### Billable Account Value.

Portfolio Increments	Maximum Annual Fee
Any Billable Account Value	2.30%

“Billable Account Value” is equal to the account value of the securities held in the Account less the account value of any Unapproved Securities. The Wrap Program Fee is calculated on the Billable Account Value as of the last business day of the previous quarter and is billed quarterly in advance. Wrap Program Fees are reflected on the Custodian’s Account statement and are debited directly from the Account without advance notice to the Client. The Billable Account Value includes cash and cash equivalents, including cash in the Cash Sweep Program and Bank Deposit Sweep Program. Including cash and cash equivalents in the Billable Account Value is a conflict of interest because it increases the fees you pay AAS and your Advisor. Unapproved Securities are any securities held in the Account that are considered “not approved,” and they are not included in Wrap Program Fee calculations.

For example, if your Account has a Billable Account Value of \$250,000, and you and your Advisor agree to an annual Wrap Program Fee of 1.5%, you will pay \$3750 *per year*. This is paid quarterly in advance, and the quarterly calculation is based on the exact number of calendar days in the quarter/year. For this example, there are 90 days in the calendar quarter so the fee is calculated as:  $(\$250,000 \times 1.5\%) \times (90 / 365) = (\$3,750 \times 0.25) = \$937.50$ . The quarter’s Wrap Program Fee of \$937.50 will be deducted from your Account.

The initial Wrap Program Fee (“Inception Fee”) is calculated as of the Account’s start date. The Inception Fee is prorated for the balance of the calendar quarter. In the example listed above, the Account is opened 30 days before the end of the quarter, and the Wrap Program Fee is calculated as  $(\$250,000 \times 1.5\%) \times (30 / 365) = (\$3,750 \times 0.082) = \$307.50$ .

Subsequently the Wrap Program Fee is billed in advance on a quarterly basis and is calculated based on the Billable Account Value as of the last business day of the prior calendar quarter. The Wrap Program Fee is not adjusted during the quarter for changes in Billable Account Value (appreciation or depreciation of the securities held in the Account). However, the Account is charged or refunded a supplemental prorated Wrap Program Fee on a monthly basis if there are significant net additions or net withdrawals in the Account during the month. Net additions or withdrawals are charged a prorated fee applied for the days remaining within the quarter and all additions and withdrawals are netted daily. This prorated adjustment only occurs if the net addition or withdrawal meets the daily threshold of at least \$10,000. A prorated Wrap Program Fee (also referred to as “flow billing”) is assessed in the month following the net addition or net withdrawal. The prorated Wrap Program Fee is based on additions and withdrawals to your Account only and is not aggregated for Related Accounts.

Securities that transfer into the Account that are considered Unapproved Securities are included in the Wrap Program Fee calculation for approximately 30 days after delivery to the Account. At or near 30 days, these “Unapproved Securities” are no longer included in Wrap Program Fee calculations, and the assets do not appear on Quarterly Performance Reports. Unapproved Securities do show on your Custodian account statements.

When fees are calculated, Unapproved Securities are excluded from the Billable Account Value. Unapproved Securities are generally securities that are not considered approved for the Wrap Program or that the Advisor and Client have agreed should be held in the Account but not included in Account rebalancing or in management of the Account. Cash and cash equivalents, including cash invested in the Bank Deposit Sweep Program, are included in the Wrap Program Fee calculations unless invested in AAS’s selection of a cash reserve fund that is not included in billing or reporting. The cash reserve funds (currently IPPXX Invesco Premier Portfolio, OMBXX Oppenheimer Government Money Market Fund and AIMXX Invesco Government Money Market Fund) are excluded from billing other than to calculate applicable credits.

Unapproved Securities and the cash reserve funds are not held in the IMS Select Wrap Program beyond the initial repositioning (i.e., selling initial holdings in the Account and purchasing Approved Securities to meet your chosen model). Exceptions can be made in the sole judgment of AAS.



For the purposes of calculating the Wrap Program Fee, the “Billable Account Value” is calculated as the market value of all Approved Securities held in the Account as of the last business day of the prior quarter. For mutual funds, the fund’s net asset value, as computed by the mutual fund company is used. The Custodian prices Approved Securities based on information they believe to be reliable. If any prices are unavailable or believed to be unreliable, we determine prices in good faith to reflect our understanding of the fair market value.

Related Accounts can be linked together upon Client request to reduce the Wrap Program Fee if Accounts are billed on a tiered-fee basis. To be eligible for linking, you must affirmatively notify AAS of the Accounts that are to be linked and provide AAS written information on any forms designated by AAS for this purpose. Related Accounts are accepted by AAS in AAS’s sole judgment. Each Related Account should individually and separately meet the respective advisory Wrap Program requirements but with an account balance of at least \$25,000. Exceptions can be made in the sole judgment of AAS. Individual or Related Accounts that fall below \$5,000 are generally subject to termination from the Wrap Program.

Each Related Account in Multi Account Management (MAM) should individually and separately meet the Program minimum. The MAM feature is used for related accounts across both taxable and non-taxable account registrations to create a single portfolio that is more tax efficient.

If the Agreement is terminated prior to the end of the quarter, you receive a pro rata refund of the prepaid, unearned fees from the date the Account is removed from the Wrap Program through the end of the quarter. Please see the “Termination of Agreement” section of this Wrap Brochure for additional information.

The IMS Select Portfolios Wrap Program includes account management, certain brokerage services, reporting, custody and administrative services. A portion of the Wrap Program Fee is used to cover expenses associated with trading in the Account, custody of assets, platform fees to Envestnet, an SEC registered investment adviser, and the other services described in this Wrap Brochure. The Wrap Program Fee does not include certain dealer markups or markdowns on odd lot differentials, transfer taxes, exchange fees, execution fees (foreign and/or domestic), certain transaction fees or any other fees required by law. AAS pays IRA annual account fees assessed by Custodian for managed accounts.

Depending upon the amount of the Wrap Program Fee, the level of assets and trading activity in the Account, the value of custodial and other services provided, and other factors, the Wrap Program Fee can exceed the aggregate cost of these services if they were obtained separately. Accordingly, the Wrap Program Fee is more or less expensive than if you selected separate brokerage services, without the additional Wrap Program services provided. You should consider the importance and value of these additional Wrap Program services to you when comparing various options for obtaining advice, reporting and execution services. You should also consider the amount of anticipated trading activity when selecting among Wrap Programs and assessing the overall cost. If there are prolonged periods of inactivity or an asset allocation with significant cash or cash equivalents, the Wrap Program Fees can result in higher overall expenses than if commissions were paid separately for each transaction outside a Wrap Program. There are times when an account is deemed ineligible for an advisory program. At that time, the account is moved to a commission-based brokerage account (a retail account) and Wrap Program Fees are no longer charged to the client.

You have the option of purchasing the investments we recommend through other firms, brokers or agents that are not affiliated with AAS, but you will not receive our advisory services and monitoring if you do so. If you purchased investments through a brokerage account held at our Custodian within one year of transferring them to an advisory account, the amount of commission you paid that exceeds an average advisory fee is refunded directly to your Account. If the purchase was within thirty (30) days of transferring to an advisory account, the full amount of your commission is refunded directly to your advisory account.

The IMS Select Portfolios Wrap Program uses mutual funds and ETFs (with no sales commissions) from our Approved Securities list which are purchased in the Wrap Program Account. Clients pay their proportionate share of ongoing mutual fund, closed-end fund, ETF or money market management and administrative fees (collectively known as the funds’ internal expense ratio). AAS will disclose an investment’s expenses upon request, and these

fees are also disclosed in the applicable product prospectus or statement of additional information. Within the IMS Select Portfolios Wrap Program, no-load, load-waived class A and advisory or institutional share class mutual funds are generally used. Structured products may also be purchased in the IMS Select Portfolios Account as described earlier in this Wrap Brochure.

You do not have the ability to exclude certain asset classes or modify your Portfolio in the IMS Select Portfolios Wrap Program. Exceptions can be made by AAS.

In the event Program Fees are due and payable to AAS but the Account has insufficient cash available, AAS is authorized to liquidate assets to cover the Program Fees.

### **Private Placement Insurance Program**

Through Titan Advisors, accredited investors may choose to invest in private placement life insurance (PPLI) or a private placement variable annuity (PPVA) with the segregated investment account managed under the IMS Select Portfolios Program. PPLI is a variable universal life insurance policy that provides a segregated investment account and a life insurance benefit. A PPVA enables investors to defer income tax on investment gains without the traditional retail variable annuity features such as income guarantees or principal protection, thus reducing the internal fees. The life insurance portion of these products is provided through Lombard International.

### **Private Placement Insurance Program Fees**

AAS earns a 25-basis point management fee on the PPLI and PPVA accounts established through Titan Advisors in addition to the fee split between AAS and the Advisor. The Advisor and Client agree to a fee according to the IMS Select Portfolios Fee Schedule with a maximum annual fee of 2.3%. Transactions for accounts in either the PPLI or PPVA program are traded through our affiliated broker-dealer, AIS, so additional fees are earned by AIS. This additional compensation is a conflict of interest because additional revenue is generated for an AAS affiliate and you can purchase similar products without paying a management fee to AAS and your Advisor.

### **Margin in Fee-Based Accounts**

The use of margin is prohibited in IMS Select Portfolios Accounts.

### **Assets that Transfer In**

Assets that transfer into your Account and that are not considered Approved Securities are generally sold and the money reinvested in Approved Securities. If sold, these Unapproved Securities may incur contingent-deferred or other sales charges and fees that will be charged to you. These are in addition to the Wrap Program Fee.

### **Rebalancing**

From time to time, market conditions cause your Account's investment allocations to vary from the recommended investment strategy. To remain consistent with the investment strategy guidelines established by this SIS, rebalancing will occur. Your Account will be rebalanced by AAS as needed. If market fluctuations, withdrawals or additional deposits cause your Account to deviate more than a pre-determined amount from the model linked to your Account, AAS has the option of rebalancing to the model or making other adjustments as needed. The need to initiate trades for a rebalance does not occur frequently, and in some cases, rebalancing may not be needed during the year.

During turbulent markets or at the onset of other economic conditions, rebalancing may be suspended so that practical considerations are taken into account. For example, continuous rebalancing to chase what is essentially a moving target may simply increase the transaction costs and/or taxable consequences in your Account without meaningful benefit. Accounts can be suspended from automatic rebalancing on a temporary basis and are monitored to ensure they remain within the chosen risk profile. AAS may also adjust the asset class or security level drift parameters temporarily to account for extreme market volatility.

### **IMS Select Portfolios Wrap Program Approved Securities**

Securities for your Account are recommended or selected based on your Client Risk Profile as contained in the SIS and other information you provide your Advisor. This section discloses the details regarding assets that are

eligible for the Wrap Program.

AAS maintains a list of Approved Securities for the IMS Select Portfolios Wrap Program. The lists change periodically and AAS has sole decision-making authority to add or remove a security from the list. You should consult with your Advisor if you have questions regarding the Approved Securities in your Account. AAS may allow other Approved Securities in IMS Select Portfolios beyond mutual funds, ETFs, and structured products at their discretion.

**Advisory Share Class.** Some mutual fund issuers offer advisory share classes (“Advisory Shares”) designed for fee-based investment advisory programs. The availability of Advisory Shares is determined by the product issuer or sponsor. In general, what differentiates Advisory Shares from traditional mutual fund shares is that Advisory Shares have reduced or eliminated the 12b-1 fees paid to firms that sell the fund, and in some cases also have lower ongoing expenses. AAS credits the mutual fund 12b-1 fees it receives back to the client accounts paying such 12b-1 fees. The use of Advisory Shares generally provides a lower cost share class to clients which is to your advantage.

**Shareholder Service Fees.** Certain mutual fund companies pay AIS to provide shareholder liaison services to investors. These fees are classified as shareholder servicing fees and generally include responding to investor inquiries and providing information on mutual fund investments. AIS receives these shareholder services fees from certain mutual funds in amounts up to 0.25% annually of the assets invested in a particular mutual fund. This is a conflict of interest that encourages AAS to promote sales of these mutual funds to our Clients.

### **Information About Your Account**

To ensure that you remain informed about your Account, Custodian delivers trade confirmations and monthly statements to you when there is activity in the Account; otherwise, statements are sent quarterly. You should promptly review all Account statements and trade confirmations to ensure that your Account is being handled in accordance with your instructions, and immediately inform AAS in writing of any discrepancies. If you have questions or need additional information regarding your Account, you should contact your Advisor. Trade confirmations are bundled and sent to you on a quarterly basis.

Wrap Program Accounts are held through AIS, an affiliated broker-dealer, which in turn introduces assets to and clears transactions on a fully-disclosed basis through Custodian. AIS directs all transactions related to the Wrap Program to Custodian for execution and confirmation. Exceptions can be granted in the sole judgment of AAS.

### **Investment Discretion**

The IMS Select Portfolios Wrap Program is a discretionary Program. This means you provide discretionary trading authority to AAS to rebalance or substitute Approved Securities without receiving specific permission from you before the trades are entered. Discretionary trading authorization does not grant discretionary authority to withdraw funds or securities (other than for payment of Wrap Program Fees) nor does it allow for any trading outside the Advisory Program you have chosen.

### **Early Redemption Fees**

Some mutual funds impose fees for assets that are held less than a specified time period as stated in their prospectus. These are also known as “early redemption fees”, “market timing fees” or “short-term trading fees” and are determined by the mutual fund sponsor. Fees vary by fund company and by fund and are outlined in the mutual fund’s prospectus. If imposed, these fees are paid by the Client and are in addition to the Wrap Program Fee. The early redemption fees are not shared with AAS or the Advisor. These early redemption fees reduce the return on your investment. Early redemption fees are not the same as contingent deferred sales charges (or CDSCs) imposed by certain mutual fund share classes.

### **Termination of Agreement**

Clients who want to terminate their Agreement should notify their Advisor or AAS verbally or in writing. Wrap Program Fees are paid in advance; therefore, AAS provides a pro rata refund of unearned, prepaid fees if the contract is terminated prior to the end of the quarter. You incur any gain or loss in your Account for any period it

was invested.

AAS reserves the right to terminate the advisory relationship if the market value of Approved Securities in the Account falls below the minimum level. At the end of the quarter, AAS reviews and terminates Accounts that no longer meet the Wrap Program's minimum qualifications. Each Related Account should individually and separately meet the respective advisory Wrap Program requirements. Exceptions can be made in the sole judgment of AAS. Individual or Related Accounts that fall below \$5,000 are generally subject to termination from the IMS Select Portfolios Program in AAS's sole judgment.

If you terminate the Agreement, the Account is converted to a retail account for which you are obligated to pay commissions for each transaction you direct. In a retail account you are generally subject to an annual maintenance fee imposed by the Custodian. If you elect to close your retail account, you may be also be assessed a termination fee imposed by the Custodian. Please refer to the Avantax Disclosures Packet for a description of brokerage fees. This document is provided by the Custodian at Account opening. It is important you understand this distinction since any transactions you request once the Account is no longer in the Wrap Program incur fees and commissions over and above the Wrap Program Fee paid while the Account was in the Wrap Program.

Upon moving to a retail account, you may be required to convert advisory mutual fund share classes to a retail share class. Retail share classes typically involve greater internal expenses than advisory share classes, and AIS and your Advisor, if appropriately FINRA licensed, receive 12b-1 fees on retail share classes held in a retail account. Please see the fund's prospectus and consult your tax advisor for additional details. Instructions to terminate IMS Select Portfolios Accounts can take up to two business days to process once notification is received by AAS.

### **AAS Responsibilities**

The responsibilities of AAS relate specifically to securities products and related services and do not apply to any other products or services you may receive from your Advisor. Advisors are generally independent contractors who have the ability to offer additional products and services outside their relationship with AAS. AAS does not provide or supervise tax, accounting, payroll or legal services. The advisory services we offer are tailored to the Client and designed to meet your Client Risk Profile while allowing you to work toward your individual goals.

## **Item 5: Account Requirements and Types of Clients**

Most IMS Programs are designed for individuals, pension and profit-sharing plans, charitable organizations, corporations or other businesses with investment portfolios valued at \$25,000 or more, although exceptions can be made in the sole judgment of AAS.

The private placement insurance products offered through Titan Advisors are only available to accredited investors. AAS does not design its programs for municipal or other government entities as these are prohibited account types under our policies.

## **Item 6: Portfolio Manager Selection and Evaluation**

AAS and our Advisors use various methods of analysis and investment strategies when formulating investment advice and this varies based on the Advisor providing advice. Methods and strategies used by one Advisor are often different than those used by other Advisors.

### **Due Diligence Process: IMS Select Portfolios**

The Portfolio Management Group ("PMG") under the supervision of the Investment Oversight Committee ("IOC") is responsible for selection, monitoring and termination of the investment managers, mutual funds, and ETFs used in the IMS Select Portfolios. Following is a brief description of our due diligence process.

### **Investment Manager Search and Selection**

In the case of "active" investing (as compared to passive market-cap weighted investments), the goal of successful manager selection is to identify managers with consistent investment processes that can demonstrate value-added

risk-adjusted performance over time. The evaluation process can be separated into two parts, and the relative importance in the decision-making process is weighted as follows:

1. Qualitative Evaluation: 60% Evaluation of investments based on people, philosophy, process and implementation (why the investment performs the way it does)
2. Quantitative Evaluation: 40% – Evaluation of the investment based on numerical, statistical or measurable attributes (how the investment performed).

Depending on the program used, the selection of managers or mutual funds within each asset class (and sub-asset class) is guided by an internal investment mandate, which is simply a set of rules. This mandate may include a desired range for tracking error versus an appropriate style benchmark, a desired range of correlation to a benchmark (as expressed through quantitative data such as R-squared, beta and active share) and other desired characteristics unique to the sub-asset class.

For the initial search of mutual fund strategies for inclusion within the IMS Select Portfolios, PMG begins by working from the universe of mutual funds available through the respective custodian. PMG requires that the mutual fund allow an initial purchase that is congruent with the constraints of the IMS Select Portfolio. Any restrictions on early redemptions by the fund will also be reviewed.

In the case of the IMS Select Portfolios, additional work is done at this point to evaluate the diversification benefits the new mutual fund or ETF brings to the entire model portfolio as a whole and how well it will work with the other investments in the IMS Select Portfolios. The PMG performs scenario analysis and hypothetical “back-testing” to appraise how well the final candidates under consideration might have performed in concert with the other existing managers in the model portfolios. The final output rests with the judgment and research findings derived by analyzing variously sourced data and from meetings with managers. Moreover, the PMG must measure an individual manager’s risk-adjusted performance in not only isolation, but also its impact on the entire portfolio risk/return characteristics.

Further, PMG chooses managers or funds who, in the IOC’s judgment, best represent the asset classes contained in our asset allocation models and also provide adequate exposure, where applicable, to a range of investment styles (growth, value, momentum, core, focused, etc.) within each asset class. The final step is for the IOC to review and deliberate the recommendation(s) as presented by PMG. At the conclusion of any discussion, the IOC may request further information or move to vote on the addition or replacement of an investment manager or mutual fund. If the recommendation is approved, the operational process to make the manager available commences.

### **Calculating Performance**

Account performance is calculated utilizing a portfolio accounting system. The Modified Dietz method is used to calculate performance resulting in a time weighted rate of return. Performance is calculated when cash flows in or out exceed 10% of a portfolio’s market value and/or from month to month. On a quarterly basis we will perform an audit and reconciliation of all portfolio performance returns. We do not conform to GIPS standards for performance reporting.

### **Investment Manager Monitoring and Review**

Investment monitoring continues after the evaluation and selection process stops. On a regular basis, PMG reviews the quantitative aspects of all of the mutual funds and ETFs within the IMS Select Portfolios.

Periodically, PMG performs robust quantitative analysis of each ETF and mutual fund. This evaluation is conducted on both the performance returns of the managers and the underlying holdings within each strategy. This analysis is based on various numerical, statistical and measurable attributes. An overarching goal is to properly examine unexplainable performance and risk variances or deviations from the stated or historical investment process of the manager or fund. In addition to the quantitative items reviewed on a quarterly basis, PMG evaluates each investment strategy by studying the manager’s written commentary on its investment performance and the market environment. In the case of mutual funds, PMG examines updated annual or semi-annual reports, prospectuses and other fund company literature.

PMG will also review manager reports from the external due diligence firm and other outside vendors. As often as is necessary, one or more members of PMG conduct a conference call or engage in written communication with each investment manager. If it becomes evident that a manager's performance is deviating from expectations, further investigation is initiated and findings are reported to the investment committee. If necessary, an on-site due diligence visit is conducted by members of PMG.

#### **Due Diligence Process for AAS's Asset Allocation Models**

The PMG reviews the model inputs (expected returns, standard deviations and correlations) to verify the diversification contributions of each of the asset classes within the models. The PMG is comprised of experienced and credentialed investment professionals.

#### **Tailoring Services for Individual Clients**

Our IMS platform is designed to provide you with an orderly, disciplined approach to the investment process. IMS offers a personalized program for investing, with customized portfolios, access to asset managers and consolidated account performance reporting.

AAS provides you with portfolio construction, asset management, and monitoring. Monitoring constitutes an ongoing process by which:

- Your investment objectives, constraints and preferences are identified and specified
- Strategies are developed and implemented through combinations of financial assets
- Capital market conditions and client circumstances are monitored, and
- Portfolio adjustments are made as appropriate to reflect significant changes in any or all of the above relevant variables

You and your Advisor work together to complete a risk profile questionnaire in the form AAS provides. This describes your financial situation, investment objectives, time horizon, risk tolerance and investment preferences and is referred to as your Client Risk Profile.

AAS asks that you promptly notify your Advisor of any material changes in the information furnished by you, including material changes to your financial situation, investment objectives, time horizon, risk tolerance or investment strategy.

AAS uses your Client Risk Profile to provide services to you. Based on this information, you and your Advisor determine your risk profile. AAS typically provides you with a Statement of Investment Selection ("SIS") which includes your advisory agreement.

Our currently available Investment Management Solutions (IMS) risk profiles are designated as Ultra-Conservative, Conservative, Moderate, Growth and Aggressive Growth. Not every IMS Select strategy contains all risk profiles. AAS may change the existing risk profiles or introduce new risk profiles. You may change IMS risk profiles as needed.

#### **Performance-Based Fees**

AAS does not charge performance-based fees or engage in side-by-side management of accounts. AAS does not share in any performance-based fees that may be charged by Sub-Managers in other advisory programs.

#### **Types of Investments and Risks**

**Asset Allocation and Diversification.** The performance of Accounts is dependent on the allocation of securities among various asset classes and the selection of underlying investments. There is a risk that decisions regarding asset allocation and the selection of investments will cause an Account's performance to lag relevant benchmarks or result in losses. While allocations to multiple asset classes can reduce risk, risk cannot be completely eliminated with diversification. Asset allocation and diversification do not guarantee a profit or protect against loss.

**Cybersecurity Risk.** With the increased use of technology to conduct business, corporate and personal technology are susceptible to information security and related risks. In general, cyber incidents can result from

deliberate attacks or unintentional events and arise from external or internal sources. Cyberattacks include but are not limited to gaining unauthorized access to digital systems (e.g., through “hacking” or malicious software coding) for purposes of misappropriating assets or sensitive information; corrupting data, equipment or systems; or causing operational disruption. Cyberattacks are also carried out in a manner that does not require gaining unauthorized access, such as causing denial-of-service attacks on websites (i.e., efforts to make network services unavailable to intended users). Cyber incidents affecting AAS, its affiliates or Advisors, or any other service providers (including, but not limited to accountants, custodians, transfer agents, and financial intermediaries used by a fund or an account) have the ability to cause disruptions and impact business operations, potentially resulting in financial losses, interference with the ability to calculate net asset value (“NAV”), impediments to trading, the inability to transact business, destruction to equipment and systems, violations of applicable privacy and other laws, regulatory fines, penalties, reputational damage, reimbursement or other compensation costs, or additional compliance costs. Similar adverse consequences could result from cyber incidents affecting issuers of securities in which an Account invests, counterparties with which an entity engages in transactions, governmental and other regulatory authorities, exchange and other financial market operators, banks, brokers, dealers, insurance companies and other financial institutions (including financial intermediaries and service providers), and other parties.

**Investing in Mutual Funds and ETFs.** Clients bear all the risks of the investment strategies employed by the mutual funds and ETFs held in their Accounts, including the risk that a mutual fund or ETF will not meet their investment objectives. For the specific risks associated with a mutual fund or ETF, please see its prospectus.

**Exchange-Traded Funds.** An ETF is a security that trades on an exchange and may seek to track an index, commodity, or a basket of assets like an index fund. Some ETFs are actively managed and do not seek to track a certain index or basket of assets. ETFs can trade at a premium or discount to their NAV and are affected by the market fluctuations of their underlying investments. They also have unique risks depending on their structure and underlying investments.

**Risks Relating to Underlying Funds.** In addition, the underlying mutual funds held within Accounts are subject to the following specific risks, although not every risk is applicable to every Fund:

- **Quantitative Investing.** Securities selected in mutual funds using quantitative analysis can perform differently from the market as a whole as a result of the factors used in the analysis, the weight placed on each factor, changes to the factors’ behavior over time, market volatility, or the quantitative model’s assumption about market behavior.
- **Stocks.** Stock markets are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. Different parts of the market can react differently to these developments. In addition, stock investments are subject to risk related to market capitalization as well as company-specific risk.
- **Foreign Exposure.** Foreign securities are subject to interest rate, currency exchange rate, economic, regulatory, and political risks, all of which generally are greater in emerging markets. These risks are particularly significant for mutual funds that focus on a single country or region or emerging markets. Foreign markets are often more volatile than U.S. markets and can perform differently from the U.S. market. Emerging markets can be subject to greater social, economic, regulatory, and political uncertainties and can be extremely volatile. Foreign exchange rates can also be extremely volatile.
- **Bonds.** In general, the bond market is volatile, and 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 bonds. 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 and credit and default risks for both issuers and counterparties. Unlike individual bonds, most bond funds do not have a maturity date, so holding them until maturity to avoid losses caused by price volatility is not possible. In addition, investments in certain bond structures can be less liquid than other investments, which would make them more difficult to trade effectively.
- **Credit Risk.** Changes in the financial condition of an issuer or counterparty and changes in specific

economic or political conditions that affect a particular type of security or issuer can increase the risk of default by an issuer or counterparty, which can affect a security's or instrument's credit quality or value. Lower quality debt securities and certain types of other securities involve greater risk of default or price changes due to changes in the credit quality of the issuer.

- **Derivatives.** Some mutual funds selected may contain derivatives, such as swaps and exchange-traded futures. Generally speaking, a derivative is a financial contract whose value is based on the value of a reference asset. Investments in derivatives subject these mutual funds to risks different from, and possibly greater than, those of the underlying securities, assets, or market indexes. Some derivatives involve leverage and provide investment exposure in an amount exceeding the initial investment. As a result, the use of derivatives causes these mutual funds to be more volatile, because leverage tends to exaggerate the effect of any increase or decrease in the value of a fund's portfolio securities.
- **Municipal Bonds.** The municipal market can be affected by adverse tax, legislative, or political changes and the financial condition of the issuers of municipal securities. Municipal funds normally seek to earn income and pay dividends that are expected to be exempt from federal income tax. If a fund investor is a resident in the state of issuance of the bonds held by the fund, interest dividends are sometimes 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 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 sometimes generate income subject to these taxes. For federal tax purposes, a fund's distributions of gains attributable to a fund's sale of municipal or other bonds are generally taxable as either ordinary income or long-term capital gains. Redemptions, including exchanges, can result in a capital gain or loss for federal and/or state income tax purposes. Tax code changes could impact the municipal bond market. Tax laws are subject to change, and the preferential tax treatment of municipal bond interest income may be removed or phased out for investors at certain income levels.
- **Legislative and Regulatory Risk.** Investments in your Account may be adversely affected by new (or revised) laws or regulations. Changes to laws or regulations can impact the securities markets as a whole, specific industries and individual issuers of securities. The impact of these changes is not always known for some time.

**Master Limited Partnerships (MLPs).** A publicly traded limited partnership that combines the tax benefits of a partnership with the liquidity of a public company. There are tax advantages and disadvantages to an MLP investment for both its limited and general partners. All profits and losses are passed through to the limited partners and quarterly distributions are treated as a return of capital.

**Risks of Relying on Information and Data Provided by Others.** Analysis methods often rely on the assumption that the companies whose funds and securities are recommended for purchase and sale, the rating agencies that review such funds and securities, and other available sources of information about such funds and securities, are providing accurate, reliable and unbiased data and information. AAS cannot guarantee that analyses and recommendations will not be compromised by or free from any inaccurate, incomplete, or misleading data and information provided by such other third parties.

**Long-Term Purchases Risk.** Recommendations are generally made with the intent that clients purchase investments with the intention of holding them for one year or longer. This recommendation is often because AAS or the Sub-Manager believes the investments to be undervalued at the time of purchase and/or because AAS or Sub-Manager chooses to recommend exposure to a particular asset class over time, regardless of the current projection for such class. A risk of a long-term investment strategy is that by holding an investment for a longer period of time, the client is not be able to take advantage of potential short-term gains. Moreover, if the analysis is incorrect, an investment can decline sharply in value before it is sold.

**Volatility and Correlation Risks.** Clients should be aware that the asset selection process is based in part on a careful evaluation of past price performance and volatility in order to evaluate future probabilities. However, it is possible that different or unrelated asset classes exhibit similar price changes in similar directions, which can adversely affect Client and become more acute in times of market upheaval or high volatility. Past performance is



no guarantee of future results, and any historical returns, expected returns or probability projections do not reflect actual future performance.

Clients should understand that investing in any security involves a risk of loss of both income and principal. There can be no assurance that any investment advice, strategies or recommendations will be successful or that Client's investment objective will be achieved.

### **Voting Client Securities**

In the IMS Select Portfolios Wrap Program, you retain the right to vote proxies and handle notices of legal proceedings such as class actions and bankruptcies. Neither your Advisor nor AAS provide advice regarding proxies or legal proceedings for any securities held in the Account. Notices and materials are mailed directly to you and not to AAS.

With respect to the securities, held or formerly held in the Account, or the issuer thereof, which become the subject of a legal proceedings, including bankruptcy or class action, Client directs AAS to forward information related to such legal proceedings directly to Client. AAS, with respect to the securities held or formerly held in the Account, or the issuer thereof, which become the subject of a legal proceedings, will not be obligated to render any advice or take any action with respect to legal proceedings. AAS's sole obligation will be to forward such information within a reasonable period of time to Client.

**Inaccurate Client Profile.** AAS shall not bear any responsibility for investment management decisions or other actions taken on the basis of any incomplete, misleading or incorrect information relating to any Client Profile.

### **Item 7 Client Information Provided to Portfolio Managers**

Securities for your Account are recommended or selected based on your Client Profile and other information you provide to your Advisor. As updated, information is provided to Envestnet, Sub-Manager and others as applicable.

### **Item 8 Client Contact with Portfolio Managers**

Your Advisor is responsible for delivering investment advisory services to you, and clients generally deal with matters relating to their Accounts by contacting their Advisor directly. Advisor is generally available by telephone, email or scheduled in-person meetings during normal business hours.

### **Item 9: Additional Information**

**Disciplinary Information.** In the past 10 years, AAS has not been involved in any material disciplinary events. To obtain information about AAS's disciplinary history, or to verify AAS has not been involved in any material disciplinary event, you may visit [adviserinfo.sec.gov](http://adviserinfo.sec.gov). For information on any broker-dealer related disciplinary events for our affiliate, AIS go to [brokercheck.finra.org](http://brokercheck.finra.org).

**Other Financial Industry Activities and Affiliations.** AAS is a national investment advisory firm providing advisory and other financial services to individuals, pension and profit-sharing plans, charitable organizations, corporations or other businesses. Companies affiliated with and/or under the same control with AAS include Avantax Wealth Management, Inc., the parent company of AAS, AIS and Avantax Insurance. AAS may recommend that Clients use AIS or Avantax Insurance to implement investment strategies. AIS, a registered broker-dealer and member of FINRA, SIPC, and the MSRB, and provides brokerage services to AAS Clients.

Your Advisor is, in most cases, an independent contractor of AAS solely for the purpose of providing investment advisory services as described in this Wrap Brochure. In addition to the investment advisory services provided through AAS or securities brokerage services through AIS, your Advisor sometimes provides legal, tax, accounting, audit, payroll or other products or services that are not conducted through AAS or its affiliates. AAS and its affiliates do not endorse or supervise any of your Advisor's activities conducted outside of AAS. Some of these outside services present a conflict of interest with services provided by AAS or its affiliates. To the extent that is the case, by entering into the Agreement you acknowledge and agree that you have considered any such conflicts

and have decided to proceed despite their existence. The responsibilities of AAS and its affiliates relate specifically to offering approved securities and investment advisory services. Please ask your Advisor and refer to their Form ADV Part 2B for more detailed information.

Any securities investments recommended by your Advisor must be made through AAS, and all checks for Wrap Program Account investments must be made out to "National Financial Services LLC". You should immediately contact the Advisory Compliance Department at (800) 821-8254 if you are asked by your Advisor to make any investments outside of Avantax or if you are asked to make an investment payment to your Advisor's outside business or any other third-party.

### **Quarterly Performance Reports**

AAS provides Quarterly Performance Reports (QPRs) for your Account to your Advisor who then makes them available to you. Individual or Related Accounts with a total market value equal to or less than \$500 do not receive a QPR. You may elect electronic delivery of your QPRs through an electronic client portal. Notify your Advisor if you have not yet enrolled and would like to do so. The pricing and performance figures included in the QPR are believed to be accurate but are not guaranteed. Returns shown are after fees are deducted (*i.e.*, net of fees), and include the impact of dividends or capital gains in the calculations. Regarding fixed income, an accrual accounting method is used for billing and performance reporting for interest payments that have been accrued but not yet paid within the period. Regarding mutual funds and equities, a cash accounting method is used for billing and performance reporting, and therefore does not reflect dividends that have been declared but not yet paid within the period. These methods differ only in the timing of when transactions (*i.e.*, dividends and interest payments) are credited to your Account. The timing difference may result in an increase or decrease in the performance of your Account or the amount billed to your Account.

In addition to the QPRs, the Custodian delivers account statements to you on at least a quarterly basis. You should compare the information in the QPR with the information in the account statement provided by the Custodian. There may be a difference in the values represented as a result of the different billing methods indicated above. Please note that Envestnet reports trades as of the trade date and NFS reports trades as of the settlement date. For this reason, some trades may appear on your Envestnet reports that are not yet reflected on your NFS custodial statements. The Custodian's account statement is the official record of the holdings and value of investments held in the Account.

QPRs are provided by Envestnet. Performance is now calculated using the Modified Dietz method and not the previous Time-Weighted Rate of Return method.

QPRs and the Custodian's account statements and trade confirmations are provided to keep you informed of your Account performance and activity and to ensure that the Account is being handled in accordance with your instructions. *You should review all reports and statements on a timely basis and notify AAS immediately if you believe that any investment or activity in the Account was not authorized or is inconsistent with your instructions. Please contact your Advisor or AAS if you do not receive your QPRs or your Account statements. Transactions that are not challenged within ten (10) calendar days of receipt will be deemed accurate. Also notify AAS immediately if you receive a statement at any time from your Advisor that does not match the QPRs or account statements.*

## **CONFLICTS OF INTEREST**

### **Qualified Plan Rollovers**

If you are rolling over assets from an employer-sponsored Qualified Retirement Plan ("QRP"), such as a 401(k), to an Individual Retirement Account ("IRA") with us, you should carefully evaluate all choices which are typically available. These four options include: leaving your assets in your former employer's plan (if permitted), rolling over the assets to your new employer's plan (if permitted), rolling your assets to an IRA with us or another firm, or cashing out the account value. You should consider the following factors, among others, in deciding whether to keep assets in a QRP, rollover to an IRA or cash out: investment options, fees and expenses, the ability to make penalty-free withdrawals and differences in creditor protection. Of these options, AAS only earns compensation if you open an IRA account with us. In addition, the costs of maintaining and investing assets in an IRA with us generally involves higher costs than keeping the assets in your current QRP. While we typically offer a

broader range of investment options and services than an employer-sponsored QRP, there are no guarantees that the additional investment options will outperform your employer-sponsored QRP.

### **Conflicts of Interest: Direct Account Quarterly Fees**

While your Advisor's compensation is the same whether your transactions occur in a direct account ("DTF") or a brokerage account, it is important to note that Avantax charges Advisors a quarterly fee for most DTF accounts due to additional complexity in the supervision required for these accounts. Some DTF account registrations, generally those that are not available on the brokerage platform, are exempt from this fee. This fee creates a conflict of interest since it is paid by the Advisor and no such fee is charged on accounts held on other platforms including brokerage or advisory accounts, although other account fees apply to these accounts as elsewhere disclosed. As such, your Advisor may recommend that you open a brokerage or an advisory account (rather than a DTF account). Based on the number and type of transactions in your account and/or the balance in your account, a brokerage or an advisory account may cost you more in ongoing fees and expenses than you would pay in a DTF account. You should discuss the features and services provided in a brokerage or an advisory account with your Advisor, whether they are worth the additional cost (if applicable), and whether it is in your best interest.

### **Conflicts of Interest: Third-Party Compensation**

AAS and our affiliate, AIS, have agreements with various Product Sponsors (issuers of mutual funds and other investments) to provide us with payments to help defray the educational, training, recordkeeping and other costs associated with bringing their products to Clients. Third-Party Compensation generally falls into one of the following areas:

- Compensation from our Custodian, including mark-ups to the fees you pay
- Compensation from Product Sponsors and other business partners related to educational conference participation ("Educational Partners")
- Compensation from other business partners related to their non-investment products or services ("Other Sources")

AAS endeavors to provide our advisory programs to Clients at a cost that is reasonable in relation to the services provided. In evaluating an investment in any of our advisory programs, you should be aware that AAS and its affiliates earn compensation from several sources related to your Account in addition to the Wrap Program Fee. The choice of Approved Securities affects the compensation AAS, its affiliates and Advisors earn as a result of your investments and thus poses various conflicts of interest. This section of the Disclosure Brochure is intended to describe significant conflicts of interest you should consider in making an investment decision. If you have any questions about compensation or conflicts of interest, please contact your Advisor.

The Third-Party Compensation we receive is generally an expense embedded in the investment which is ultimately born by investors. This creates an incentive for AAS and our Advisors to recommend investment products that pay us Third-Party Compensation but it costs you more. Because different products pay us different amounts of Third-Party Compensation, we also have an incentive to recommend those products that pay us more or that pay us ongoing Third-Party Compensation over products that pay us nothing or that pay us only on the sale of the product, rather than ongoing payments. This Third-Party Compensation is not shared directly with your Advisor although they do receive indirect benefits.

In all circumstances, AAS manages our conflicts of interest through written disclosure to you and enforcement of supervisory policies and procedures reasonably designed to ensure that we and your Advisor make recommendations that are suitable for you regardless of the possible incentives (monetary or non-monetary) to AAS or your Advisor.

Details of the various ways we earn Third-Party Compensation and the related conflicts of interest are explained below. It is possible for Product Sponsors to participate in more than one category.

### **Compensation from our Custodian**

A large percentage of AWM's brokerage and advisory clients maintain accounts with Custodian, which serves as

the custodian for AWM's clients' assets, including substantially all of AAS's managed accounts. In addition to executing and clearing transactions for AWM's advisory and brokerage clients, AIS's clearing relationship with NFS provides AWM's affiliated broker-dealer, AIS, with substantial economic benefits by using itself as the broker-dealer and Custodian as the clearing firm for its accounts rather than an unaffiliated broker-dealer. For example, AIS adds a substantial markup to the transaction costs and certain other brokerage account charges and fees that are assessed to AWM client accounts.

Additionally, AIS receives continuous revenue sharing payments from Custodian that are derived from certain types of transactions, positions, and assets in client accounts held at Custodian. Revenue sharing provides AIS and its affiliates with a significant source of revenue. Therefore, it creates an incentive to recommend the purchase of certain mutual funds or offer certain cash sweep options that will yield greater compensation to AIS – and this is a material conflict of interest. For example, AIS also maintains a Bank Deposit Sweep Program with Custodian which is discussed below. This program creates substantial financial benefits for AIS and Custodian.

AIS's ten-year clearing/custodial agreement with Custodian also provides that Custodian shall pay to AIS incentive credits (or monetary compensation) for utilizing Custodian's services. These credits and other financial benefits are discussed below. Importantly, AIS is subject to payback terms on several of the credits it receives if its agreement with Custodian is terminated prior to the end of the ten-year term of the agreement, or not renewed at the end of the ten-year term.

This additional compensation received by AIS creates a significant conflict of interest with AWM's clients because AIS has a substantial economic incentive to use Custodian as its clearing firm for trade execution and custody over other firms that do not or would not share revenue with AIS or provide other economic incentives discussed herein. It is important to also note that, in the event AIS terminates its agreement with Custodian before the agreement expires, a termination penalty will be assessed by Custodian. This creates a conflict of interest for AIS to maintain the custodian agreement with Custodian for the duration of the agreement.

### **Specific Financial Benefits from Custodian**

AIS's clearing relationship also provides certain material financial benefits which are described below.

#### **Cash Sweep Program**

AAS, by and through its affiliate, AIS, makes available a Cash Sweep Program to its clients. In this Cash Sweep Program, there are two options: A Bank Deposit Sweep Program and a Money Market Mutual Fund Sweep Program (together "Cash Sweep Program".)

In the Cash Sweep Program, the cash balance in your Account will be automatically deposited or "swept" into the applicable Cash Sweep Program option on a nightly basis. If you do not wish to participate in the Cash Sweep Program while maintaining an investment advisory account with AAS, we generally will not be able to maintain your Account in the Program.

The Bank Deposit Sweep Program is available to all Accounts except 401(k) accounts.

The Money Market Mutual Fund Sweep Program is only available to 401(k) accounts.

AAS and its affiliates do earn revenue, as described in detail below, on all accounts in the Cash Sweep Program except ERISA accounts, 401(k) accounts, Simple IRAs and SEP-IRAs.

While you must use the Cash Sweep Program to maintain an account through AAS or its affiliate AIS, you may work with your Advisor to purchase other investments with your Cash Sweep Program balances. These investments can be other cash alternatives, such as money market funds, or other non-cash investments as allowed under the advisory program you have chosen. Any advisory program managed by a third-party money manager or those where AAS serves as the Portfolio Manager generally has restrictions on investment selections that can be made by you. This information is outlined throughout the applicable Disclosure Brochure. You should ask your Advisor if you have questions about this.

## **Bank Deposit Sweep Program & Related Conflicts of Interest**

AAS, by and through its affiliate, AIS, makes available to its clients an FDIC insured Standard Bank Deposit Sweep Program as the default option for the automatic investment, or “sweep”, of available cash balances (from cash deposits, securities transactions, dividend and interest payments and other activities) in your Account (the “Bank Sweep Program”). The Bank Sweep Program is not a security. The Bank Sweep Program is administered by Custodian, our clearing firm, and it is the only core account investment vehicle option available in your Program Account, with the exception of 401(k) accounts as described below. If you do not wish to participate in the Bank Sweep Program while maintaining an investment advisory account, we generally will not be able to maintain your Account in the Program.

The cash balance in your Account will be automatically deposited or “swept” into interest bearing FDIC insurance eligible program deposit accounts at one or more FDIC-insured financial institutions (each a “Program Bank”). The maximum amount of FDIC insurance coverage for your cash deposits is \$250,000 (for an individual account) and \$500,000 (for a joint account) at each Program Bank. If your cash deposits exceed these amounts in the Bank Sweep Program, your assets will be held in multiple Program Banks. In the Bank Sweep Program, you may be eligible to obtain FDIC insurance for total cash deposits in your Account up to \$2,500,000 (for an individual account) and \$5,000,000 (for a joint account). Your cash balances in the Bank Sweep Program will only become eligible for FDIC insurance once the funds are deposited into a Program Deposit Account held by a Program Bank.

You are solely responsible for monitoring your cash levels in each Program Bank, so you do not lose FDIC insurance if the cash levels exceed the insurable amounts. Your account statements contain the name(s) of all Program Banks where your cash is held through the Bank Sweep Program.

If you have other assets in a Program Bank held outside of the Bank Sweep Program, you must let your Advisor know so another Program Bank can be selected. Otherwise you run the risk of exceeding the aggregate amount of FDIC-insured cash maintained in the Program Bank, which would render some portion of your cash ineligible for FDIC insurance. If you establish an account at a Program Bank outside of the Bank Sweep Program, you will receive additional disclosures including, but not limited to, your assets’ eligibility for FDIC insurance, and we encourage you to read them carefully. For help with monitoring your FDIC coverage in your bank sweep accounts, you may use the FDIC’s Electronic Deposit Insurance Estimator (EDIE) which is available online at [edie.fdic.gov](http://edie.fdic.gov)

Please also note that your cash balances while they are held by Custodian and/or AAS or its affiliate, AIS, are not FDIC insured but they are covered by the Securities Investor Protection Corporation (the “SIPC”). Put simply, funds deposited in FDIC insured programs are not eligible for SIPC coverage and, conversely, funds covered by SIPC are not also eligible for coverage by FDIC insurance. For additional information on SIPC coverage, please visit [sipc.org](http://sipc.org). For additional information on FDIC Insurance, please visit [fdic.gov/deposit/deposits/index.html](http://fdic.gov/deposit/deposits/index.html).

Custodian is generally responsible for investing customer cash sweep balances in an omnibus bank account at one or more of the Program Banks and keeping records sufficient to link deposit amounts to each specific customer for purposes of FDIC insurance. Customers do not have a specific account in their names at Program Banks, but Custodian maintains records sufficient to establish at which banks each customer’s cash is deposited. Custodian also regularly monitors client balances in Bank Sweep Program held at different Program Banks to ensure customer’s Bank Sweep Program cash is eligible for FDIC insurance. The fees earned by Custodian covers Custodian’s recordkeeping and other administrative costs of managing the Bank Sweep Program. Custodian likely earns a profit from managing the Bank Sweep Program.

Custodian is compensated by AAS or its affiliates and the Program Banks to administer the Bank Sweep Program. Program Banks pay Custodian a uniform interest rate it has negotiated on average daily balances held in each Program Bank’s accounts and Custodian retains a portion of that interest (50 basis points) as compensation for its services administering the Bank Sweep Program. After Custodian collects its portion of the interest, the remaining amount of interest is passed on to AAS or its affiliates, which, in its sole discretion (and as further discussed below), passes on a portion of the interest to its customers and retains the rest.

The revenue to AAS and its affiliates generated by the Bank Sweep Program may be greater than revenues generated by cash sweep options at other brokerage firms. The interest you earn through the Bank Sweep Program may be less than you could earn through other core account investment vehicles at other brokerage firms. If you are going to maintain cash in the Bank Sweep Program you should evaluate whether you can earn a greater amount of interest by maintaining your cash in a different type of account outside of the Bank Sweep Program.

### **Conflicts of Interests in the Bank Sweep Program**

The Bank Sweep Program creates significant financial benefits for AIS and its affiliates (including AAS), and for Custodian. Any fees earned from the Bank Sweep Program are not shared with your Advisor and are retained by AIS. Because AAS or its affiliates receive significant fees from our clients' participation in the Bank Sweep Program, AIS has a conflict of interest in offering a Bank Sweep Program to you. The greater the amount of cash that is swept into the Bank Sweep Program and the total amount of cash for all clients maintained in the Bank Sweep Program, the greater the conflict of interest. This creates a conflict of interest, as AAS or its affiliates is incentivized to choose client cash sweep options for circumstances relating to and benefiting AAS's investment advisory business model, rather than individualized client circumstances.

These fees we receive from the Bank Sweep Program are in addition to, and will not reduce, the Program Fee, which increases your cost of investing as well as the money earned by AAS or its affiliates. Because the Program Fee will be applied to any cash and cash alternatives held within your Account (except those invested in a cash reserve fund as described under Item 5, Fees and Compensation), you will almost always experience negative performance (or lose money) on the cash asset allocation for your Account if the Program Fee charged on your cash and any cash alternatives is higher than the return you receive on any cash swept to the Bank Sweep Program and on any cash alternatives. This also creates a conflict of interest because Avantax earns more from the Bank Sweep Program balances in investment advisory accounts than it would if such balances were held outside of the Bank Sweep Program or outside of the investment advisory account entirely, creating an economic incentive for AAS or its affiliates to recommend advisory assets in cash be swept in the Bank Sweep Program.

The yields in the Bank Sweep Program are significantly less than you can earn through products designed to provide higher yields for your cash balances. In exchange for this lower interest rate, your Bank Sweep Program balances are eligible for FDIC insurance designed to protect you against the loss of your insured deposits if an FDIC-insured bank or savings association fails. FDIC insurance is backed by the full faith and credit of the U.S. government. Investment products such as money market funds pay a much higher rate of interest in many cases but are subject to market fluctuations and possible losses and are not FDIC insured. You may be subject to additional costs and delays in accessing your money market funds or other cash equivalent investments should you decide to invest in other investments and opt-out of the Bank Sweep Program. You will also need to work closely with your Advisor to ensure your cash is invested since it will not automatically "sweep" to your chosen investments if invested outside of the Bank Sweep Program. All fees earned by AAS or its affiliates in the Bank Sweep Program create a conflict of interest.

AAS or its affiliates will receive a monthly revenue share that varies and is based on the Targeted Federal Funds Rate ("TFF"). As interest rates increase, our portion increases. Our percent ranges from 13 to 50 basis points (0.13% to 0.50%) but will increase again when the TFF Rate is 1% or higher. This amount is inclusive of any interest to be passed through to Customer Accounts. The share shall be calculated against average daily Program assets on deposit at all Depository Institutions for the given calendar month and is tied to the TFF Rate. We do not share this additional revenue with your Advisor.

AAS or its affiliates determines the interest rate payable to you in the Bank Sweep Program in accordance with a formula that considers the prevailing interest rates available to customers through bank deposit cash sweep accounts at other broker-dealer and investment advisory firms, which AAS or its affiliates deems to be peer firms in its sole judgment, and approved by AWM's Bank Deposit Sweep Committee. The rate of return on any sweep option is usually significantly lower than that of similar investments offered outside the Bank Sweep Program. The

interest you earn by maintaining cash in the Bank Sweep Program varies over time, and any interest retained by AWM and not shared with you reduces your interest dollar-for-dollar. Moreover, there is no guarantee that the interest you earn under the Bank Sweep Program will remain higher than others over any given period. You will earn very little (and possibly no) interest during periods where interest rates are generally low.

The Bank Sweep Program has been and will be more profitable to us than other available sweep options that may be currently available through Custodian, and AWM will retain much more of the interest earned on Bank Sweep Program balances than we will pay out to you. The revenue received by AAS or its affiliates from the Bank Sweep Program is significant and helps pay for the programs and services we offer to you. AAS or its affiliates and/or Custodian will also earn interest from the temporary investment of cash balances before they are deposited with the Program Banks, and AAS, its affiliates and Custodian will not share this interest with you.

When selecting an investment strategy for your Account, you should speak with your Advisor regarding cash balances and the management of cash allocations in your Account.

For more information about the Bank Sweep Program, please review the comprehensive Cash Sweep Disclosure Statement located at [AvantaxWealthManagement.com/legal/cash-sweep-program](http://AvantaxWealthManagement.com/legal/cash-sweep-program), or you may ask your Advisor for a copy of this document. This disclosure document contains current interest rates, the distinctions between the Bank Sweep Program versions for natural persons and entities, a list of Program Banks, the way funds are allocated to Program Banks, your responsibilities, benefits to AAS or its affiliates and others, and account eligibility information. Please read this document carefully.

### **Money Market Sweep Program**

The Money Market Mutual Fund Sweep Program ("Money Market Sweep Program") is only available for 401(k) accounts and utilizes the Fidelity Government Cash Reserves Fund (FDRXX). Neither AAS, nor its affiliate AIS, receive Sweep Program revenue on assets in the Money Market Sweep Program.

### **Technology Credits**

During the term of AIS's clearing agreement with Custodian, Custodian has agreed to provide AIS with monthly technology credits incurred by AIS and its affiliates for utilizing Custodian's and its affiliates proprietary technology products and services. These credits are not shared with your Advisor. These credits are subject to the payback terms discussed hereinabove if AIS's agreement with Custodian is terminated prior to the end of the ten-year term of the agreement, or not renewed at the end of the ten-year term.

### **Transfer Cost Credits**

Custodian reimburses to AAS or its affiliates a portion of the transfer of accounts' fees and other costs and expenses which customers or AIS could incur in connection with the transfer of eligible accounts to Custodian. Eligible accounts are IRA accounts held directly with a mutual fund sponsor. On an aggregate basis, the amount of the credits could amount to significant amounts of money considering the number of accounts that can transfer to Custodian. This creates a conflict of interest as the transfer credit may be more than the costs and expenses born by AIS. Clients will also incur additional costs by transferring their accounts held directly with a mutual fund sponsor to Custodian. These costs will likely exceed the Client's direct mutual fund costs and will benefit AAS or its affiliates. Although, the Transfer Cost Credit is not shared with clients or Advisors, it is a material conflict of interest when an account held directly with a mutual fund sponsor transfers to Custodian. This also concerns circumstances where a direct retirement plan is transferred to an individual retirement account held through the Custodian. These credits are subject to the payback terms discussed hereinabove if AIS's agreement with Custodian is terminated prior to the end of the ten-year term of the agreement, or not renewed at the end of the ten-year term.

### **Deconversion Cost Credits**

AAS or its affiliates received monetary benefits to offset the costs of transferring accounts to the clearing platform. These benefits were significant in value and were designed to offset costs we incurred during the conversion as well as to offset customer account charges incurred during the conversion. Although such conversion reimbursement is common in the industry, there is no guarantee that AAS or its affiliates could have

received identical reimbursement had it selected a different clearing firm. Therefore, the selection and retention of Custodian as our clearing firm creates a conflict of interest. The conversion date was mid-September 2018.

These economic incentives were a factor in the selection of Custodian over other possibilities since not all custodians furnish similar benefits. These cost credits are additional compensation to AIS or its affiliates and will likely exceed the actual costs to transfer accounts to the clearing platform. Additionally, after deducting for conversion costs paid by Custodian directly to AIS, the remaining credit amount will be paid to AAS's parent company, Blucora, Inc. who will retain any unused funds over the duration of the ten-year custodial agreement. These credits are not shared with your Advisor. These credits are subject to the payback terms discussed hereinabove if AIS's agreement with Custodian is terminated prior to the end of the ten-year term of the agreement, or not renewed at the end of the ten-year term.

### **Credit Interest for Non-Sweep Cash Balances**

For Accounts that do not participate in a sweep option, Accounts are eligible for credit interest on cash balances. AAS or its affiliates receive a percentage of the credit interest after payment is credited to Accounts. AAS or its affiliates earn interest from this temporary investment of cash balances before they are deposited in the Bank Sweep Program with the Program Banks. These credits are not shared with Clients or our Advisors.

### **Mark-up on the Schedule of Fees**

AIS, at its discretion, adds a markup to the various fees detailed in the AIS Schedule of Fees that are assessed by its Custodian and paid by clients. AIS decides how much and which fees will be marked up. Not all brokerage firms markup these or other fees. The markup on these fees generate additional revenue for AIS. The actual fees and charges that clients will incur are dependent upon the type of account and the nature and quantity of the transactions that occur, the services that are provided, or the positions that are held in the account. Please reference Appendix 1 for the Schedule of Fees.

### **Interest on Cash Debit Balances**

When a client's cash account does not have sufficient cash to cover fees charged against it, a cash debit balance is created. AAS and AIS charge clients interest on the amount of all cash debit balances which accrue in the account. Clients can avoid being charged interest on cash debits by ensuring there is sufficient cash in the account to pay the quarterly Program Fees. Interest on any non-retirement cash account debit balances will accrue beginning on the day that the debit is posted to the account and will be charged to the account at 3.00% above the National Financial Base Lending Rate, NFBLR. This amount of interest which is set by AIS is greater than the rate set by the Custodian. AAS and AIS have the ability to mark-up the interest charged on all cash debits in our Programs for assets held at Custodian and AIS will retain all additional interest income generated by cash debit balances in our Programs. The interest chargeable on cash debits in our Programs for assets held at Custodian is set by AAS and AIS at the maximum amount of interest. This increases your costs if you carry a cash debit balance and it increases the amount of revenue we receive. Therefore, this is a material conflict of interest.

### **No-Fee Brokerage IRA**

Based on certain criteria, an IRA registration is available on the NFS platform (for brokerage and advisory accounts) with no annual IRA fee charged to the client. There are, however, conflicts of interest for assets on the NFS platform that are not applicable to assets held in direct accounts.

AIS earns revenue from the assets on the NFS platform that it does not earn if the assets remain directly with a mutual fund sponsor. This "third-party compensation" or "revenue sharing" takes multiple forms, including: Receipt of margin interest; Mark-ups on certain fees paid by the client including ticket charges; Cash Sweep Program revenue; Transfer cost credits for IRA accounts; Annual compensation paid per account; and other compensation paid by NFS. Though this revenue is not shared with its Advisors, they present an incentive to Avantax to open accounts on the NFS brokerage platform instead of in a direct mutual fund account. Direct mutual fund accounts are less expensive to clients in certain situations.

For more complete details on these conflicts, refer to the Regulation Best Interest Disclosure document and the Schedule of Fees located at [AvantaxWealthManagement.com/disclosure-catalog](http://AvantaxWealthManagement.com/disclosure-catalog). You may also ask your Financial



Professional for printed copies.

### **Third-Party Compensation on Open Accounts**

NFS pays AIS a flat fee per open account on an annual basis for every account opened after September 30, 2020, subject to a maximum fee over the life of AIS's contract with NFS. All open accounts with a balance are included. While this fee is retained by AIS or its affiliates and not shared with its Advisors, it presents an incentive to Avantax to open accounts on the NFS brokerage platform instead of directly with a mutual fund company. Direct mutual fund accounts are less expensive to clients in certain situations.

### **Compensation from our Educational Partners**

Third-Party Compensation is also received from Product Sponsors, their affiliates and other business partners on many of the financial products and services offered to our advisory customers. Together we refer to these companies as "Educational Partners." The amount of Third-Party Compensation we receive from Educational Partners varies and is dependent on such things as: the type of investment (e.g., mutual funds, ETFs, or alternatives) and the combined compensation received from the Product Sponsor across the various relationships they have with us.

Within the universe of Approved Securities used in the Program, our Educational Partners have agreements with AIS to provide payments to help defray the educational, training, recordkeeping and other costs associated with offering these products to Clients. These payments, which are in addition to the fees and expenses disclosed in the fund prospectus fee table, are calculated as a percentage of assets under management, a percentage of initial sales, or a combination of assets and sales. For example, for every \$10,000 investment, Avantax can receive a one-time payment of up to \$25 (25 basis points) and/or an annual payment of up to \$13 (13 basis points) for each year the assets remain invested. Variable annuities and alternative investments (which are not often held in Program Accounts) pay higher fees as outlined in the table below.

Payments we receive from our Educational Partners create one or more conflicts of interest. This means that AAS is more likely to add securities from our Educational Partners to our list of Approved Securities. Although the Third-Party Compensation payments received from Educational Partners are not shared with your Advisor and are not directly tied to the expenses applied to your Account, a conflict of interest exists for AAS in the selection and recommendation of Approved Securities sponsored by Educational Partners.

In addition, Advisors separately receive reimbursement for marketing expenses, client functions and attendance at due diligence, training and education meetings sponsored by AAS, its affiliates or our Product Sponsors. Enhanced access to our Advisors is also provided via training events, conference calls and meetings as well as heightened visibility of the Educational Partners' products through the distribution of sales literature, newsletters and training materials on our intranet. For more information, you should ask your Advisor which Product Sponsors, if any, provided expense reimbursement or additional compensation to the Advisor. These are considered conflicts of interest for our Educational Partners since they receive more access to our Advisors than other Product Sponsors receive.

Educational Partners pay different amounts to participate in our Educational Partners' Program which means some receive different benefits than others (such as increased presentation time at one or more of our conferences). The range of Third-Party Compensation we receive from our Educational Partners is listed below:

<b>Product Categories</b>	<b>Avantax Receives</b>	<b>Your Advisor Receives</b>
Mutual Funds	Up to 0.13% of Customer Assets and/or Up to 0.25% of Sales	None
Variable Annuities	Up to 0.13% of Customer Assets, and/or Up to 0.40% of Sales	None
Fixed Annuities & Fixed Indexed Annuities	Up to 0.13% of Customer Assets, and/or Up to 0.25% of Sales	None

Alternative Investments	Up to 0.35% of Customer Assets, and/or Up to 1.50% of Sales	None
Other Business Partners	Up to 0.13% of Customer Assets, and/or Up to 0.25% of Sales	None

Assets in ERISA accounts are not included in the customer assets or new sales calculations which means we do not receive additional Third-Party Compensation on securities held in ERISA Accounts. Assets in the cash reserve funds (as described earlier) are not excluded from our receipt of Third-Party Compensation unless the assets are held in an ERISA account.

Certain issuers pay AIS a negotiated fixed annual amount in Third-Party Compensation, regardless of the amount of assets held in customer accounts or new sales to customers. These direct payments vary by Educational Partner and are sometimes in addition to other compensation they pay AIS. Flat-fee annual payments vary with some Educational Partners paying up to \$80,000 per year.

The following Educational Partners paid Third-Party Compensation to Avantax during the past year. Not every Product Sponsor listed below sells products that can be held in advisory accounts:

Mutual Fund / ETF Sponsors	Annuity / Insurance Carriers	Alternatives / Direct Participation Sponsors	Other Business Partners
AM Funds	AXA	AEI	AAM
Columbia	AIG	APX Energy	AEI
Davis	Athene	Blackstone	Allegiance
Delaware	Allianz	CNL Securities	BOK Financial
Deutsche	Brighthouse	FS Investments	First Trust
Dreyfus	Lincoln	Hines Securities	
Franklin Templeton	Nationwide	Inland Securities	
Invesco	Protective	Jones Lang LaSalle	
John Hancock	Saybrus	Mewbourne	
Hartford	Transamerica	Penn Square	
Legg Mason	Sammons	SmartStop	
MFS	Global Atlantic	Waveland	
Pioneer	New York Life		
Prudential (PGIM)	Integrity		
Sammons	Jackson National		
Virtus	Symetra		
Wisdom Tree			

AAS and/or its affiliates collect revenue in the manner outlined above from many of the securities in which you invest. The additional compensation received varies by Educational Partner, and sometimes by security within the same Educational Partner which creates a conflict of interest. As a result, AAS has a financial incentive to recommend one security over a similarly situated security due to the compensation we receive from one over another. This also results in an increase in your costs if we recommend a more expensive security. AAS strives to make all recommendations independent of such financial considerations and based solely on our obligations to consider your objectives and needs.

These direct and indirect payments from our Educational Partners are in addition to the quarterly Program Fee you pay and are imbedded in the security's pricing. In the case of ERISA Accounts, the payments described above that are paid to AAS or an affiliate are waived or rebated back to your Account.

### Networking Fees

Networking fees are designed to compensate AIS for providing varying degrees of customer account and administrative services for those AIS customer accounts holding mutual funds. These services include the

processing of purchases, check deposits, account maintenance, and other sub-accounting and recordkeeping services.

Compensation paid for networking services is negotiated from fund company to fund company and vary depending on the networking services that AIS is required to perform for each client account established with a fund. If a client owns multiple funds in one fund family, AIS generally receives networking compensation for each individual fund. AIS may receive networking compensation based on a dollar amount per year, per client account with an individual fund. Networking compensation is paid at a rate of up to \$6 per year per client account. Not all mutual funds pay networking fees to AIS.

### **Third-Party Compensation from Other Sources**

#### **Pledging Assets: Non-Purpose Loans**

As a service to eligible customers, AIS provides access to a securities-backed non-purpose lending program offered by Goldman Sachs Bank USA (the “Bank”). Customers are not required to participate in the program, but if you choose to do so, you should be aware of the possible risks. A non-purpose loan allows borrowers to use the securities in their brokerage or advisory accounts as collateral for an extension of credit, the proceeds of which cannot be used for purchasing or trading securities. The customer’s accounts must meet certain requirements, such as a minimum market value of assets in the account before the Bank approves the non-purpose loan. The requirements and approval or denial of credit is controlled by the Bank and AAS is not a decision-maker.

AAS has certain conflicts of interest in offering this service to customers:

- **Referral Fees.** As part of this Program, the Bank compensates AIS in the form of a Referral Fee, which is equal to 50 basis points (0.5%) of the average principal amount of all outstanding Program loans that AIS customers have through the program. This Referral Fee is paid from the interest you pay on your Program loans and, were AIS to agree to receive a lower Referral Fee, customers’ interest rate would decline by that same amount. Were customers to take a loan from a different institution outside of this program, AIS would not receive a Referral Fee. Accordingly, the Referral Fee creates a conflict of interest between us and you. AIS does not share any portion of the Referral Fee with the Advisor.
- **Program Loans Secured by Investment Advisory Accounts.** When a customer takes a loan secured by securities in their advisory account, the securities remain in the advisory account, which means that AAS continues to receive advisory fees based on the full value of the securities that are eligible for billing purposes, with no reduction or offset for the value of securities that secure the loan. In contrast, if the customer were to liquidate the securities rather than borrow against them, AAS would no longer receive advisory fees based on the value of those securities and AIS would not receive a Referral Fee on the loan amount. Therefore, the payment of a Referral Fee and the lack of any reduction or offset against the total billable assets in the customer’s investment advisory account incentivizes AIS and AAS to make this program available to customers. Furthermore, it is a conflict of interest for AAS and AIS to recommend that customers take a loan under this program rather than liquidate securities in their investment accounts.

#### **Additional Compensation to Advisors**

Your Advisor can be incentivized to join and remain affiliated with AAS or its affiliates. These incentives can include compensation arrangements such as bonuses and/or business transition loans in the form of a promissory note. Your Advisor may use this payment to help pay for expenses incurred during the transition of his or her book of business to AAS or its affiliates. Receiving this compensation is a conflict of interest as it provides your Advisor an incentive to join and remain affiliated with AAS or its affiliates based solely on this compensation and not on our ability to meet the needs of your Advisor and his or her clients.

#### **Restricted Equity Awards to Certain Advisors**

Avantax’s parent company Blucora awards \$5.5 million in equity grants of its publicly traded stock (Nasdaq: BCOR) to Avantax firms with the top gross dealer concession (GDC) during the performance period of January 1, 2020 – December 31, 2020 and allocations on an individual financial professional basis based on those with the highest percentage increase year-over-year for total GDC. This equity compensation is a conflict of interest as it

provides your Advisor an incentive to recommend products and services which will increase his/her revenue on an individual and/or firm basis. However, Avantax monitors securities transactions made by our Advisors for the best interest of the client, and the equity awards are based on total GDC across all product lines. No one particular financial product or service is incentivized over another.

### **Brokerage Practices**

AAS requires most Wrap Program Accounts be established and held through AIS as an introducing broker-dealer while trades are executed and cleared through Custodian. Accounts managed by AAS Advisors must be established with AIS and cleared through Custodian. Financial planning or consulting services are not directly relevant to brokerage practices; however, in the event you elect to open a brokerage account through AIS, the following brokerage practices would apply.

### **Information about Custodian**

As custodian of your brokerage account, Custodian, at the direction of AAS, is responsible for:

- The execution, clearance, and settlement of securities transactions
- Preparing and sending transaction confirmations and periodic statements of your Account
- The custody (or safekeeping), receipt, and delivery of funds and securities
- The extension of margin credit upon approval

As a registered broker-dealer, Custodian is subject to the rules and regulations of the SEC, FINRA, and other exchanges of which Custodian is a member, and the MSRB. Custodian is also a member of the New York Stock Exchange (NYSE) and SIPC.

AAS chooses to use Custodian based on several important factors, including the fact that Custodian and AIS have an agreement currently in place. Other factors are outlined below. The commissions to us and Custodian may be higher or lower than those obtainable from other broker-dealers in return for the products and services offered. While we consider our rates competitive, they are not necessarily the lowest possible commission rates available for your Account transactions. Not all advisors require their clients to use a specific custodian.

Through the relationship with Custodian, we receive economic and non-economic benefits. These benefits include, but are not necessarily limited to:

- A dedicated service group and a Relationship Manager for AAS Accounts on the Custodian platform
- Receipt of duplicate confirmations and bundled duplicate statements
- Online Access for Clients to access their Account information
- Availability of third-party research and technology
- Access to trading and capital markets desks
- Access to operational and platform solutions that are integrated with Custodian' offerings
- Trading and custodial experience
- The ability to have advisory fees for AAS Wrap Programs directly debited from Client Accounts (in accordance with federal and state requirements)
- Electronic download of trades, balances and position information
- Access to an electronic communications network for Client order entry and Account information

AAS does not receive compensation for payment of order-flow.

### **Principal Trading, Agency Cross Transactions and Directed Brokerage**

Even though AIS is permitted by contract and by law to do so, as a matter of policy AAS does not execute principal trades or agency cross transactions. AAS does not, under normal circumstances, allow Clients to direct brokerage to other firms or custodians. Investing in the Wrap Program generally requires the use of Custodian and AIS.

### **Fixed Income**

As a result of the "over-the-counter" nature of fixed income securities, the available trading methods differ from

that of equity securities. Consistent with the overriding principle of best execution and subject to applicable regulatory requirements AIS has contracted with Advisors Asset Management, Inc. ("AAM") to execute trades for Clients in fixed income securities, unit investment trusts (UITs) and structured products, and Advisors have the option of placing these trades with either AAM or Custodian. These firms consider a number of factors when determining where to execute orders including the type, size, supply, liquidity, and complexity of the order along with the prevailing market conditions.

### **Best Execution**

For both equity and fixed income securities, Avantax regularly reviews transactions for quality of execution, and takes action, as appropriate, for Client price improvement and to fulfill our best execution obligations. AAS and its affiliates have a Best Execution Committee that reviews trading activity and the vendors and systems we use to process transactions, among other things. Client orders are treated with the same priority and procedural flow as non-advisory brokerage customer trades. AAS does not have soft dollar arrangements with its custodians.

### **Trade Allocation**

The ability to enter aggregate or bunched trades on the Envestnet platform allows AAS to utilize the average price feature. This allows an average price for Accounts included in the bunched trade if the entire order does not fill at one price. Average pricing only occurs for trades in the same security entered at the same time by AAS and only for ETFs.

Bunched or aggregated trades are entered with specific details for the Client Accounts included in the trade and upcoming allocation of shares (i.e., the number of shares allocated to each Account that is included in the bunched trade) so AAS is not in a position to change the allocation based on execution. In the majority of cases, the complete order executes at one time eliminating the need for an average price (i.e., the entire order executes at the same price). If, however, the order does require multiple fills, the price of the different executions are "averaged" and allocated as originally submitted. If the order does not execute in its entirety, the shares are allocated on a pro rata basis based on the original aggregated trade. There can be occasions where the pro rata allocation is increased or decreased to avoid holding odd lot or small numbers of shares, especially for smaller accounts. This allocation is determined in good faith in an attempt to be fair and equitable.

### **Trade Errors**

AAS endeavors to identify and correct trade errors as soon as possible. When a trade error has been identified by AAS, the Advisor or Client, AAS will correct the error promptly with the goal of restoring the Account back to the same condition that would have resulted if the error had not occurred. Losses associated with trade errors that are not caused by the Client will be borne by AAS or the Advisor. Under some circumstances, our correction of an error could result in a gain. If the error correction results in a gain, AAS retains the gain. For purposes of determining the gain or loss, related transactions are corrected in the aggregate so that profits offset associated losses; a Client may not elect to ratify only those portions of a related transaction that are profitable.

### **Other Information**

#### **Client Consent**

*By entering into the SIS, Client consents to AIS, AAS and the Advisor retaining their respective share of any other fees or payments that are made to AAS or AIS in connection with the use of specific Approved Securities.* These fees include but are not limited to sweep fees, networking fees and other Third-Party Compensation received from Product Sponsors, Custodian and Educational Partners as disclosed.

#### **Privacy Statement**

AAS does not sell Client information to other companies for marketing purposes. AAS employs reasonable security standards and safeguards to protect our Client's personal information and prevent fraud. In addition, AAS continues to protect our Client's privacy even if they cease being our Client. For more information, please read our Privacy Statement on [avantaxwealthmanagement.com](http://avantaxwealthmanagement.com) or refer to the Avantax Disclosures Packet you receive from Custodian shortly after Account opening.

#### **Code of Ethics**

AAS clients are entitled to expect high ethical standards of conduct in all of their dealings with us. AAS strives to foster a culture that supports our ability to meet our Clients' expectations. To assist us in minimizing potential conflicts of interest and prevent inappropriate activity, we have developed a Code of Ethics ("COE"). The COE defines "Access Persons" and describes standards of conduct, personal securities transactions, securities covered by the COE, insider trading, conflicts of interests and confidentiality. If you are a Client or prospective Client and would like to receive a copy of the current AAS Code of Ethics, please contact your Advisor. Alternatively, you can send a written request to Avantax Advisory Services, ATTN: Advisory Compliance, P.O. Box 142829, Irving, TX 75014 or call (800) 821-8254.

AAS and our Advisors recommend or effect transactions in securities in which an AAS director, officer, employee or another Advisor may also invest directly or indirectly. This poses a conflict of interest to the extent that transactions in such securities on behalf of AAS Clients may advantage such related persons. We monitor equity trading activity in Client Accounts to ensure that Advisors' trades are not placed ahead of Client trades which may result in the Advisor receiving a better price. Advisors are prohibited from using discretion to purchase AAS's parent company Blucora (Nasdaq: BCOR) in their clients' Accounts.

## **Client Referrals & Other Compensation**

**Strategic Alliance Program.** AAS and/or our Advisors sometimes receive client referrals from outside solicitors (usually attorneys, CPAs or other professionals). The Strategic Alliance Program is a referral program designed to compensate these outside professionals for referring your advisory business to AAS. These professionals are known as "solicitors." If you are referred to us by a solicitor, AAS pays a portion of the advisory fee earned by your Advisor to the solicitor, typically for as long as you maintain an advisory relationship with us, as compensation for the referral. AAS does not charge a client additional fees if they are referred to us by a solicitor. Solicitation arrangements are disclosed to clients at the time of the solicitation via execution of a Solicitor Disclosure Statement that outlines the nature and amount of the compensation we pay to the solicitor. Solicitors are required to provide prospective clients with a current copy of AAS's Form ADV Part 2A no later than the date on which the client enters an advisory relationship with AAS and the Advisor. Solicitors participating in the Strategic Alliance Program are prohibited from soliciting municipal or other government entities.

**Unaffiliated Banks or Credit Unions.** AAS and AIS sometimes have a referral relationship with one or more unaffiliated banks or credit unions (together "Institutions") that allows for the payment of compensation to these Institutions. The compensation they receive is based on the advisory fee that you pay. If you are introduced to us through one of these arrangements, you will receive a separate written disclosure statement indicating that a referral fee is being paid to the Institution along with the amount of the referral fee. The Institution receives a pre-determined percentage of the fees earned by your Advisor, and you are not charged an additional amount to offset the referral fee paid to the Institution.

AAS does refer clients to unaffiliated third-party money managers as outlined throughout our Form ADV Part 2A Disclosure Brochure and receives a fee for doing so. Details are provided under Item 5, "Fees and Compensation." Please refer to previous disclosures contained in Item 5 and Item 10 of our Form ADV Part 2A Disclosure Brochure explaining our other compensation arrangements.

**Financial Information.** AAS has no financial condition that will impair our ability to meet our contractual commitments to you nor do we require prepayment of more than \$1200 in fees more than 6 months in advance.

**Tax Information.** AAS does not provide tax or legal advice to Client in relation to the Program or any other investment strategy we offer. Securities that transfer into your Account which are not considered Allowable Securities will be sold without regard to the tax consequences or tax basis for non-qualified Accounts. Client should discuss the potential ramifications with their tax or legal professional before allowing the securities to be transferred to the Account.

**Custody.** For certain Accounts, AAS is deemed to have custody of your funds, and in some instances, your securities, even though they are maintained at a qualified custodian. Custodian sends Account statements to you as outlined previously in this Disclosure Brochure, which list your Account holdings and their values. In the event

of any discrepancy between your Quarterly Performance Reports and your Custodian statements, you should rely on the statement from Custodian. You should also rely on the Custodian statements for the cost basis related to your Account holdings. AAS and its affiliates undergo annual audits as required by applicable regulations.

**Outside Business Activities of our Advisors**

Some of our Advisors are owners or Advisors of their own or other's registered investment advisory firms. The clients to whom they offer our advisory services are frequently the same to whom they offer financial planning services. These financial planning services are offered for compensation paid to the independent Registered Investment Adviser and the compensation is not shared with AAS. You are not obligated to use any of these individuals to provide financial planning services.

In addition, our Advisors may be separately licensed or offer their services as accountants, attorneys, insurance agents or pension consultants. All compensation they receive for these services is paid directly to the Advisor or an outside entity and is not shared with AAS. You are not obligated to use these services and these outside business activities of our Advisors are not supervised by AAS or its affiliates other than as required by regulation.

## Appendix 1 Schedule of Fees for Accounts

Effective January 1, 2021

### Ticket Charges – **Not applicable to Wrap Program Accounts**

Mutual Funds Buy or Sell Ticket Charge .....	\$6.95
Equities and ETFs .....	\$9.95
Bonds (all), UITs, CDs, Corporate Paper, Bankers' Acceptance, Mortgage Back Securities.....	\$11.95
Options .....	\$11.95 + 0.75 per contract
Mutual Fund Exchanges .....	\$2.95

### Transaction Charges

Other administrative fees may apply to Brokerage Access/Brokerage Portfolio Accounts (check copies, checkbook orders, ATM fees, additional debit card, bounced check fee, stop payment fee, etc.)

Physical Certificate Issuance <sup>1</sup> /Transfer & Ship Fee .....	\$500.00
Physical Reorg Fee .....	\$150.00
Direct Registration Service (DRS) Transfer and Ship.....	\$15.00
Legal Transfer .....	\$150.00
Legal Return.....	\$75.00
Safekeeping Fee <sup>2</sup> (per certificate per month) .....	\$15.00
Outgoing Express Mail .....	\$15.00
Non-IRA Outgoing Wire Transfer – Domestic .....	\$25.00
IRA Outgoing Wire Transfer – Domestic.....	\$15.00
Bounced/Returned Check deposited to Standard Brokerage Account .....	\$25.00
Bounced/Returned Check issued from Select Access or Premier Access.....	\$15.00
Stop Payment Check issued from Standard Brokerage Account .....	\$25.00
Stop Payment Check issued from Select Access or Premier Access .....	\$10.00
Non-Retirement Outgoing Account Transfer Fee (ACAT).....	\$95.00
IRA Termination/Liquidation Fee.....	\$125.00
Self-Employed 401(k) (Premiere Select Retirement Plan) Termination/Liquidation.....	\$125.00
Trade/Margin Extension Fee .....	\$15.00
Mailgram Fee .....	\$ 5.00

### Alternative Investment Fees<sup>3</sup>

Sell .....	\$50.00
Annual Custody & Valuation – Registered.....	\$35.00
Annual Custody & Valuation – Non-Registered.....	\$125.00
Alternate Investment Transfer/Re-Registration Fee .....	\$50.00

*Some of the fees listed above include markups or amounts in addition to charges by AIS's clearing firm (National Financial Services LLC, Member NYSE, SIPC, a Fidelity Investments® Company) which Avantax uses to defray other costs associated with its business or that are retained by Avantax for its own account.*

*Interest on any non-retirement cash account debit balances will accrue beginning on the day that the debit is posted to the account and will be charged to the account at 3.00% above the National Financial Base Lending Rate, NFBLR.*

*Avantax Investment Services may change this fee schedule at any time without additional notification. In addition to these fees, please note that certain other operational or other fees or charges may apply. If you have any questions regarding the applicability of these fees, please contact your Advisor.*

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<sup>1</sup> Other charges may apply, such as rush delivery fees.

<sup>2</sup> Covers deposit, custody and withdrawal. Only charged on those securities eligible to be held in street name.

<sup>3</sup> Includes, but not limited to, Limited Partnership (non-exchange), Non-Traded REITS, and Private Equity/Debt. The Annual Custody & Valuation fee is charged per position but shall be capped at \$500 per account per year.



## Appendix 2 Brochure Supplement

Martin Landry, CFA®, CFP®, CAIA, CIMA®, CIPM, CTFA, AIF®  
3200 Olympus Blvd, Suite 100, Dallas, TX 75019  
972-870-6942

The following provides additional information about Martin Landry, Director, Portfolio Management Group of Avantax Advisory Services. Additional information is also available on the SEC's website, [adviserinfo.sec.gov](http://adviserinfo.sec.gov).

### Business Experience& Education

#### Avantax Investment Services and Avantax Advisory Services

Director, Portfolio Management Group, Employed by Avantax from 04/2010 to Present

Mr. Landry's undergraduate degree is from Texas A&M University – Commerce where he received a Bachelor of Science degree in communications. He also has his Master of Business Administration degree in management from The University of Texas at Tyler. He has no legal or disciplinary events and is paid a salary and a bonus from Avantax. Mr. Landry was born in 1962.

Mr. Landry oversees the planning, execution and success of the Portfolio Management Group at Avantax, a role that includes implementing the *IMS Select Portfolios* advisory program's non-customized model portfolios and due diligence. He reports directly to Robert Jackson, Vice President of Advisory Services for Avantax. Mr. Landry has no other outside business activities to report.

Mr. Landry is also subject to the policies and procedures of Avantax as well as guidelines established for the advisory program. Mr. Landry has additional reporting requirements to the Avantax Advisory Services' Investment Oversight Committee. The Chief Compliance Officer is responsible for administering AAS's policies and procedures for investment advisory activities. The telephone number for your Advisory Compliance Department is 800-821-8254. Mr. Jackson, Mr. Landry's supervisor, may be contacted at 972-870-6812.

For additional information on the professional designations earned by Mr. Landry, please go to [finra.org/investors/professional-designations](http://finra.org/investors/professional-designations).

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- CIMA®, CERTIFIED INVESTMENT MANAGEMENT ANALYST®, CIMC®, CPWA®, and CERTIFIED PRIVATE WEALTH ADVISOR® are registered certification marks of Investment Management Consultants Association Inc. doing business as Investments & Wealth Institute.
- The American Bankers Association owns the mark of CTFA.
- The Center for Fiduciary Studies owns the mark of AIF®.