

**Oriental Financial Services  
Investment Advisor**

**March 30,2021**

254 MUNOZ RIVERA AVENUE  
2ndFloor  
San Juan, Puerto Rico  
00918

Telephone: (787) 474-1993  
Fax: (787) 474-1997  
Web Address: [www.orientalbank.com](http://www.orientalbank.com)

**This brochure provides information about the qualifications and business practices of Oriental Financial Services LLC. If you have any questions about the contents of this brochure, please contact us at (787) 474-1993. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority.**

**Additional information about Oriental Financial Services is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by a unique identifying number, known as a CRD number. The CRD number for Oriental Financial Services is 29753. Registration as an investment adviser does not imply any level of skill or training.**

## **Item 2. Material Changes**

This Item discusses only material changes made to this Firm Brochure (“Brochure”) since its last annual update made on March 29, 2020.

Oriental Financial Services has made a material change on Item 5- Fees and Compensation applicable to Program fee under Unified Managed Account.

.

Oriental Financial Services may at any time update this document and either send a copy of its updated Brochure or provide a summary of material changes to its Brochure and an offer to send an electronic or hard copy form of the updated brochure to clients. Clients are also able to download this brochure from the SECs website – [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) – or may contact firm to request a copy at any time.

**Item 3. Table of Contents**

<b>Item</b>	<b>Section</b>	<b>Page Number</b>
1.	Cover Page	1
2.	Material Changes	2
3.	Table of Contents	3
4.	Advisory Business	4
5.	Fees and Compensation	5
6.	Performance-Based Fees	10
7.	Types of Clients	10
8.	Methods of Analysis, Investment Strategies and Risk of Loss	11
9.	Disciplinary Information	13
10.	Other Financial Industry Activities and Affiliations	15
11.	Code of Ethics, Participation or Interest in Client Transactions and Personal Trading	16
12.	Brokerage Practices	17
13.	Review of Accounts	19
14.	Client Referrals and Other Compensation	19
15.	Custody	19
16.	Investment Discretion	20
17.	Voting Client Securities	20
18.	Financial Information	20

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

Oriental Financial Services (hereinafter “OFS”) is a Puerto Rico corporation engaged in securities brokerage and investment banking activities. It has been in business since January 4, 1993. It is a wholly owned subsidiary of OFG Bancorp, a publicly held Puerto Rico corporation and financial holding company, whose stock is traded on the New York Stock Exchange. OFS is also affiliated to Oriental Bank, Oriental Insurance LLC, Oriental Pension Consultants, Inc., OFG USA LLC, Oriental International Bank, Inc. and OFG Ventures LLC. Please refer to item 10 for information on affiliated entities with which OFS has material relationships and the method in which OFS manages certain conflicts that may arise in such relationships.

OFS is registered as an investment adviser with the United States Securities and Exchange Commission (“SEC”). It is also registered with the Financial Industry Regulatory Authority (hereinafter “FINRA”) as a securities broker-dealer. OFS’ advisory services are offered through certain OFS financial consultants who are registered as investment advisory representatives under the Puerto Rico Uniform Securities Act. Registration does not imply a certain level of skill or training.

As of December 31, 2020, OFS had approximately \$ 150,257,111 in client’s assets under management on a non-discretionary basis.

Investment advisory services offered by OFS include access to the Envestnet Private Wealth Management Program (hereinafter, the “Envestnet Program”), a wrap fee program which principal sponsor is Envestnet Asset Management, Inc. (hereinafter “Envestnet”), a third party registered investment adviser independent of OFS. OFS also provides certain clients with access to Cyrus J. Laurence LLC (formerly International Strategy and Investment, Inc.) (hereinafter “Cyrus”) a third-party registered investment adviser independent of OFS for an Equity Account Advisory Program (hereinafter, the “Cyrus Program”). However, this service is no longer available for new clients.

#### **Access to the Envestnet Program**

OFS offers the Envestnet Program which, in turn, provides comprehensive investment advisory programs. Envestnet provides investment advisory and platform management services. OFS determines which services and programs under the Envestnet Program to use with its clients and may use the services of third-party service providers in conjunction with the programs offered. Currently, OFS provides Envestnet Program clients (each a, “Program Client”) with access to the following wrap fee programs under the Envestnet Program: Separately Managed Accounts (hereinafter “SMA”), Unified Managed Account (hereinafter “UMA”), PMC Sigma Mutual Fund Solutions (MFS), PMC Strategic ETF Solutions, Paradigm Liquid Alternatives, and Third-Party

Fund Strategists Program, among others. Investment strategies that are prefaced with PMC or Sigma designate that the investment strategy is proprietary strategy of Envestnet.

For all Programs, OFS and Program Client compile pertinent financial and demographic information as provided by client to develop an investment program that will meet the client's goals and objectives. Prior to a client joining a Program, OFS interviews the client to ascertain the client's financial position, investment goals and objectives, investment limitations, reasonable restrictions and risk tolerance. Based on the information provided by the prospective client, OFS determines the suitability of the Program for the client and whether the output of the proposal generation tools is suitable for the client and in the Best Interest of the client. Using the Envestnet platform tools, OFS allocates the client's assets among the different options in the Envestnet Program and determines the suitability of the asset allocation and investment option for each client based on the client's needs and objectives, investment time horizon, risk tolerance and any other pertinent factors. Thereafter, at least on an annual basis, OFS interviews the client who joins the Envestnet Program to determine whether there has been a change in the Program Client's financial situation and investment objectives, or any reasonable restrictions imposed by client on the management of the account. Program Clients may impose reasonable restrictions on the management of their accounts.

Program Clients will receive a separate wrap-fee program brochure (Form ADV Part 2) prepared by Envestnet describing in detail the services offered within the Envestnet Program ("Envestnet Wrap Fee Program Brochure"). Program Clients are encouraged to review the disclosure document to learn more about the particular characteristics of each of the services offered within the Program.

### ***Access to the Cyrus Program***

OFS no longer actively offers the Cyrus Program. Currently, under the program there is only one account managed that remained from when the program was offered.

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

### ***Envestnet Program***

For services provided under the Envestnet Program Terms and Conditions, Program Clients pay a program fee ("Program Fee") calculated by applying the annual fee schedule ("Fee Schedule") for the pertinent category of Program assets in the Statement of Investment Selection to the asset value of Program assets (determined quarterly on an account by account basis and not in the aggregate).

The Program Fee is debited on a quarterly basis in advance from the Program Client's Account(s) (as defined in the Envestnet Program Terms and Conditions). Under the Envestnet Program documentation, Program Clients authorize the Broker of their choice ("Broker") to pay the Program Fee directly to Envestnet from Program Client's Accounts, and Envestnet, as agent for client, pays all amounts due to Broker, Sub-Managers and to OFS. For certain Programs the Program Fee may also include custody fees. In addition, if there is insufficient cash in the accounts at the time the Program Fee is to be debited from them, Envestnet or Sub-Managers may sell Program assets to generate sufficient cash to pay the Program Fee. This may create a taxable gain or tax loss for the Program Client. If Program assets are illiquid and Envestnet or a designated Sub-Manager determines that the sale of Program assets to pay the Program Fee is not feasible, Envestnet will send to the Program Client an invoice for the Program Fee for the quarter which client shall pay within ten (10) days of receipt. For information regarding the refund of prepaid fees in the event that the advisory contract is terminated, refer to the Envestnet Wrap Fee Program Brochure.

For its ongoing services to Program Clients in connection with the Envestnet Program, OFS receives a portion of the Program Fee charged by Envestnet to Program Clients as set forth above. Set forth below are the Fee Schedules for the various Programs currently offered by OFS.

**Separate Managed Account Program**- generally for clients seeking a long-term, customized, goals-driven approach to investment planning.

<b>Equity &amp; Balanced</b>	
Program Assets	Program Fee
Up to \$250,000	2.50%
\$250,000-\$1,000,000	2.25%
\$1,000,000-\$5,000,000	2.00%
Above \$5,000,000	1.75%

\*Minimum annual account fee: \$350. Pershing fee includes the manager and custodial fees. Minimum account size is typically \$100,000 per manager.

**Unified Managed Account Pricing at Various Breakpoints**- combines the investment expertise of globally prominent asset managers, ETF's and Mutual Funds into a single portfolio and custodial account.

Platform Fee Structure: Tiered base fee + additional manager fee for each SMA Model.

Program Assets	Program Fee
Up to \$1,000,000	2.25%
\$1,000,000 to \$2,000,000	2.15%
\$2,000,000 to \$5,000,000	2.00%
Above \$5,000,000	1.80%

Plus an additional fee per SMA model (approximately 35-60 basis points, although certain models may have fees outside of this range): Applicable manager fees will apply only when a SMA manager is included in the allocation and those fees will only apply against the particular percentage of the portfolio for which SMA manager is allocated.

\*All Platform Fee numbers represent basis points (bps). No minimum fee. Custody fees not included. Minimum account size is \$150,000 per model allocation.

**Advisor as Portfolio Manager (Oriental Management Investment EFT Models)** - offers individual investors an actively managed portfolio comprised of carefully selected ETF's. Unlike some programs that are restricted to a specific family, Envestnet has virtually unlimited choice in the ETF's selected. This provides Envestnet the freedom to choose the best solutions available to suit investor needs.

Program Assets	Program Fee
Up to \$50,000	1.00%
\$50,000 to \$500,000	1.50%
Above	1.25%

\*All Platform Fee numbers represent basis points(bps). Minimum annual account fee: \$75. Minimum investment \$25,000; for KEOGH accounts \$10,000.

**Third Party Strategist Program and Mutual Fund Strategist**- offers individual investors an actively managed portfolio comprised of carefully selected mutual funds or ETF's managed by independent management firms.

Program Assets	Platform Fee
\$50,000 to \$500,000	1.50%
Above \$500,000	1.25%

\* Minimum investment: \$50,000. Minimum Annual Fee: \$200.00

If the Envestnet Private Wealth Management Program Terms and Conditions among Envestnet, OFS and the Program Client is terminated and all Program assets are withdrawn from the Program

prior to the end of a quarter, the pro rata portion of the Program Fee is reimbursed to the Program Client.

### ***Cyrus Program***

#### Equity Account Fee Schedule

Market Value of Account	Client Fee	OFS Fee	Portfolio Manager Fee
First \$500,000	2.50%	1.75%	.75%
Next \$500,000	2.25%	1.50%	.75%
Next \$1,000,000	2.00%	1.40%	.60%
Next \$3,000,000	1.85%	1.30%	.60%

### ***Other Fees and Expenses***

The Program Fee does not cover certain charges associated with securities transactions in the Program Clients' accounts, including: (i) dealer markups, markdowns or spreads charged on transactions in over-the-counter securities; (ii) costs relating to trading in certain foreign securities; (iii) the internal charges and fees that may be imposed by any collective investment vehicles ("Collective Investment Vehicles"), such as mutual funds and closed-end funds, unit investment trusts, exchange-traded funds or real estate investment trusts, (such as fund operating expenses, management fees, redemption fees, Rule 12b-1 Fees (as defined below in this section) and other fees and expenses. Further information regarding charges and fees assessed by Collective Investment Vehicles may be found in the appropriate prospectus or offering documents) or other regulatory fees; (iv) brokerage commissions or other charges imposed by broker-dealers or entities other than the custodian if and when trades are cleared by another broker-dealer; (v) the charge to carry tax lot information on transferred mutual funds or other investment vehicles, postage and handling charges, returned check charges, transfer taxes; stock exchange fees or other fees mandated by law, and (vi) any brokerage commissions or other charges, including contingent deferred sales charges ("CDSC"), imposed upon the liquidation of "in-kind assets" that are transferred into the Program and which Envestnet or Cyrus, as applicable, may liquidate in its sole discretion. For additional information on brokerage practices see Item 12 below.

The Program Fee does not cover certain custodial fees that may be charged to Program Clients by the custodian. A custodian may charge a minimum account fee. Program Clients also may be charged for specific account services, such as ACAT transfers, electronic fund and wire transfer charges, and for other optional services elected by Program Clients. Accounts may be subject to



transaction-based ticket charges assessed by the custodian for the purchase of certain mutual funds. Similarly, the Program Fee does not cover certain non-brokerage-related fees such as individual retirement account (“IRA”) trustee or custodian fees and tax-qualified retirement plan account fees and annual and termination fees for retirement accounts (such as IRAs).

Some mutual funds assess redemption fees to investors upon the short-term sale of its funds. Depending on the particular mutual fund, this may include sales for rebalancing purposes. Please see the prospectus for the specific mutual fund for detailed information regarding such fees. In addition, a Program Client may incur redemption fees, when the portfolio manager to an investment strategy determines that it is in the Program Client’s overall interest, in conjunction with the stated goals of the investment strategy, to divest from certain Collective Investment Vehicles prior to the expiration of the collective investment vehicle’s minimum holding period. Depending on the length of the redemption period, the particular investment strategy and/or market circumstances, a portfolio manager may be able to minimize any redemption fees when, in the portfolio manager’s discretion, it is reasonable to allow a Program Client to remain invested in a Collective Investment Vehicle until expiration of the minimum holding period.

For smaller accounts, a minimum account fee may apply to the Program Fee or fees charged by the custodian. Minimum account fees are expressed in annual amounts but are determined and assessed based on the account asset value at the beginning of each quarter. For example, if an account has a \$100 minimum annual account Program Fee, it will be assessed a minimum of \$25 every quarter. Therefore, if a client has large asset inflows or outflows during the year that cross the minimum asset value threshold, it is possible for an account to be assessed a minimum fee for a particular quarter even if at the end of the year a look back over the account’s average balance for the entire year would have placed it above the minimum asset value threshold.

The compensation received by OFS and its supervised persons in connection with the Envestnet and Cyrus Programs, as applicable, consists of a portion of the Program Fees set forth above. OFS could also receive from time to time Rule 12b-1 Fees from mutual funds in which Program Clients have invested under the Envestnet Program. However, beginning April 2019, any such Rule 12b-1 Fees paid to OFS are credited to the applicable Program Clients. “Rule 12b-1 Fees” are fees paid by a mutual fund out of its assets pursuant to a plan adopted in accordance with Rule 12b-1 under the Investment Company Act of 1940 to cover the costs of distribution (marketing and selling) of mutual fund shares and/or the costs of providing shareholder services. OFS has never allocated to its supervised persons any such Rule 12b-1 Fees.

Neither OFS nor its supervised persons accept compensation for the sale of securities or other investment products, including asset based sales charges or service fees from the sale of mutual funds under the Envestnet and Cyrus Program. OFS and/or its supervised persons may, however, receive compensation from the sale of securities or other investment products, including mutual funds, offered outside the Envestnet and Cyrus Platform. Said compensation may be more than what they would receive if the client participated in the Envestnet Program; as such, they may

have a financial incentive to recommend such securities or investment products over the Envestnet and Cyrus Program. Clients must refer to the offering disclosures of the particular securities or investment products offering documents for more details as to the costs, fees and other particulars on the subject securities or investment products. In addition, Program Clients may purchase investment products recommended by OFS through other brokers or agents that are not affiliated with OFS. OFS has in place a Code of Ethics (Item 11) which establishes certain controls to minimize the risk of and manage areas of potential conflicts of interest.

OFS is also the introducing broker on Envestnet and Cyrus Program accounts of OFS clients. At present it does not receive compensation as introducing broker. However, if in the future it were to receive separate brokerage compensation, such compensation would be a portion of the Program Fee payable to Envestnet and Cyrus. Program Clients may refer to the Envestnet's and Cyrus' program brochure for more information.

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

Performance-Based Fees are fees based on a share of capital gains on or capital appreciation of assets of a client. OFS does not charge any performance-based fees.

#### **Item 7- Type of Clients**

OFS' advisory services are available to individuals (including high net worth individuals), banking or thrift institutions, investment companies, business development companies, pooled investment vehicles (other than investment companies), pension and profit sharing plans, charitable organizations, state or municipal government entities, other investment advisers, insurance companies, corporations, trust and retirement accounts and other businesses.

#### ***Envestnet Program***

The Programs are intended to comply with Rule 3a-4 under the Investment Company Act of 1940. Each Program Client's account is managed on the basis of the Program Client's financial situation and stated investment objectives, in accordance with reasonable investment restrictions imposed by the Program Client on the management of the assets in the account. In addition, Program Clients that join the Program through OFS ("OFS Program Client") will be contacted at least annually by OFS, and notified quarterly to contact OFS, to confirm whether there have been any changes to the Program Client's financial situation or investment objectives or if Program Client would like to impose or modify investment restrictions on the account.

Certain Programs have minimum account sizes and minimum program fees associated with them. For applicable investment minimums for Program Client accounts participating in the Programs, please refer to the Fee Schedules above.

Envestnet operates the Programs as a directed brokerage, subject to most favorable execution of Program Client transactions. Please see Item 12 for more information on brokerage practices.

### ***Cyrus Program***

OFS no longer actively offers the Cyrus Program. Currently, under the program there is only 1 account managed that remained from when the program was offered. On an annual basis, OFS reviews with Cyrus Program clients (“Cyrus Program Clients”) the continuing appropriateness of the investment objectives selected by the Cyrus Program Client in light of investment results achieved and in light of the Cyrus Program Client’s overall financial circumstances and any changes therein. Minimum for Cyrus is \$100,000.

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

### ***Envestnet Program***

OFS obtains information from each Program Client, including but not limited to a complete profile questionnaire detailing the Program Client’s financial position, investment goals and objectives, investment limitations, reasonable restrictions and risk tolerance. Based on the information provided by each Program Client, OFS determines the suitability and the Best Interest of the Program for each Program Client and whether the output of the proposal generation tools, including but not limited to model asset allocations, are suitable for a particular Program Client. In addition, on an annual basis, OFS interviews each Program Client that joins the Program through OFS to determine whether there has been a change in the Program Client’s financial situation and investment objectives or any reasonable restriction imposed by the Program Client on the management of the account.

In cases in which services involve the selection of asset allocations and portfolio construction by OFS, OFS counts with the assistance of Envestnet and with a variety of portfolio construction methods using an analytics module that allows choice of multiple Programs and products to blend a solution that best meets the Program Client’s requirements. For more information on the methods of analyses, investment strategies (including the ability to use asset allocation from third party sources to assist in the construction of portfolios for OFS and the use of Sub-Managers under some Programs) and risk loss regarding the Envestnet Program, please refer to the Envestnet Wrap-Fee Program Brochure.

### ***Cyrus Program***

OFS no longer actively offers the Cyrus Program. Currently, under the program there is only 1 account managed that remained from when the program was offered. On an annual basis, OFS reviews with Cyrus Program clients (“Cyrus Program Clients”) the continuing appropriateness of the investment objectives selected by the Cyrus Program Client in light of investment results achieved and in light of the Cyrus Program Client’s overall financial circumstances and any changes therein.

### ***Risk of Loss***

IN ALL EVENTS, INVESTING IN SECURITIES INVOLVES RISK OF LOSS (INCLUDING LOSS OF PRINCIPAL) THAT CLIENTS SHOULD BE PREPARED TO BEAR. The most common investment risks include market risk (the possibility of an investor suffering losses due to factors that affect the overall performance of financial markets) or losses due to company specific events (such as an earnings disappointment or a downgrade in the rating of a bond). In addition, stock markets, especially foreign markets, are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. Fixed-income strategies are subject to interest rate risk and the inherent credit risk related to the underlying credit worthiness of the various issuers and the volatility of the bond market.

### ***Envestnet Program***

The variety of investment strategies offered through the Envestnet Program entails a variety of investment risk for Program Clients. Some may be high-risk strategies with the potential for substantial returns but with correspondingly significant risks. As such, not all strategies are intended for all types of clients. Program Clients who choose to follow high risk strategies should be aware that there is a higher risk of significant losses, including the possibility of losing all of the assets placed in the strategies. It is strongly recommended that Program Clients diversify their investments and do not place all of their investments in high risk investment strategies.

In addition to general investment risks, certain types of investment have particular types of risk. Among others: (i) strategies that invest in international securities involve currency risk, political risk, and risk associated with varying accounting standards (strategies that invest in emerging markets may accentuate those risks); (ii) strategies that invest in small capitalized companies involve risks of relatively low trading volumes, a greater degree of change in earnings, greater short-term volatility, and higher risk of failure; (iii) growth strategies can perform differently from the market as a whole and from other types of stocks and can be more volatile than other types of stocks; (iv) high-yield bond strategies, which invest in lower-rated debt securities (commonly referred to as “junk bonds”), involve the risk of higher level of volatility and increased risk of

default; (v) “Alternative” investment types (that is, not one of the three traditional asset types - stocks, bonds and cash- and generally with low correlations to stocks and bonds) may have complex terms and features that are not easily understood and are not suitable for all investors and, in the case of liquid alternative investments, additional risks may include leverage, shorting, security valuation, and nightly reconciliation; (vi) concentrated, non-diversified or sector strategies (that is, those that invest more of their assets in a few holdings) involve additional risks of share price fluctuations because of the increased concentration of investments and increased industry-specific risks; (v) municipal investment strategies can be affected by adverse tax, legislative or political changes and the financial condition of the issuers of municipal securities; and (vi) tactical and dynamic investment strategies involve more frequent trading than the traditional “buy-and-hold” investment strategies and, therefore, can increase transaction costs and create more short-term tax gains than client may be used to seeing in other types of strategies.

In providing advisory services, OFS takes into consideration such risks. However, Program Clients must refer to the Envestnet Wrap-Fee Program Brochure for additional details on specific investment risks related to the Envestnet Program.

For detailed information on the material risks involved for each significant investment strategy or method of analysis under the Envestnet Program, please refer to the Envestnet Wrap-Fee Program Brochure.

### ***Cyrus Program***

OFS no longer actively offers the Cyrus Program. Currently, under the program there is only 1 account managed that remained from when the program was offered.

## **Item 9. Disciplinary Information**

As registered investment adviser, OFS is required to disclose any legal or disciplinary event that is material to a client’s or prospective client evaluation of our advisory business or the integrity of our management. OFS has the following disciplinary event to disclose:

- In April 2012, FINRA accepted a Letter of Acceptance, Waiver and Consent (“AWC”) from OFS. The AWC alleges that OFS did not file customer’s complaints statistical information in a timely manner, in violation of NASD Conducts Rule 3070(C) and 2110 and FINRA Rule 2010. Furthermore, that OFS did not disclose certain reportable events, in violation of NASD Conduct Rule 3070(C) and 2110 and FINRA Rule 2010. In addition, that OFS did not file Form U4’s and U5’s in a timely manner, in violation of Article V, Sections 2 and 3 of FINRA’s By-Laws and NASD Conduct Rule 2110 and FINRA Rule 2010. Without admitting or denying any allegations or findings in the AWC, on April 18, 2012 OFS paid a fine of \$15,000 and agreed to certain undertakings including,

but not limited to, submitting to FINRA a certification that OFS complied with the filing requirements of the AWC.

- In December 2014, FINRA accepted a Letter of Acceptance, Waiver and Consent (“AWC”) from OFS. The AWC alleges that from 2000 to August 5, 2013, OFS failed to disclose the markups and markdowns charged on approximately 2,800 riskless principal transactions in Puerto Rico Closed-End funds (“PR CEFs”). In addition, that OFS failed to establish and maintain a supervisory system reasonably designed to achieve compliance with Securities Exchange Act (“SEA”) Rule 10B-10. As such, OFS violated SEA Rule 10B-10(A)(2)(II)(A), NASD Rule 2230 (For Conduct before June 17, 2011), 3010(A), and 2110 (for conduct before December 15, 2008), and FINRA Rules 2232 (for conduct after June 16, 2011) and 2010 (For conduct after December 14, 2008). In addition, that between July 1, 2011, and June 30, 2013, OFS failed to establish, maintain, and enforce a supervisory system and procedures reasonably designed to identify and review concentrated securities, purchases including Puerto Rico Municipal Bonds and PR CEFs. As such, that OFS violated NASD Rule 3010(A) and (B) and FINRA Rule 2010. On December 15, 2014, OFS paid a fine of \$245,000 and agreed to submit to FINRA a proposed methodology of how it would identify, review and remediate unsuitably concentrated Puerto Rico securities purchased so that FINRA could review and determine if it complied with specific requirements of the AWC. In June 2013, OFS had already reported to FINRA on Form 4530 that it had not disclosed on customers’ confirmations the markups and markdowns for riskless principal transactions in Puerto Rico CEFs. On August 5, 2013, OFS corrected the deficiency by beginning to disclose to customers the mark ups and markdowns and amended the firm’s procedures to reflect the disclosure requirement for riskless principal transaction in Puerto Rico CEFs. In addition, during the regular examination of 2013, FINRA determined that during the period between July 1, 2011 and June 30, 2013, OFS solicited concentrated purchases of Puerto Rico securities. OFS engaged a consultant to perform a self-review of accounts in order to identify potential unsuitable purchases of Puerto Rico securities and report to FINRA and retribute to customer any misconduct. As required in the agreement between FINRA and OFS, prior to June 30, 2015 OFS conducted a review of OFS' purchase transactions conducted in Puerto Rico securities (mutual funds and government bonds) between December 14, 2012 and June 30, 2013 assisted by a Consultant. As a result of the review, on or about June 26, 2015 OFS provided restitution payment for 95 transactions concentrated in Puerto Rico assets for a total payment of \$2,109,917.
- In May 2015, FINRA accepted a Letter of Acceptance, Waiver and Consent (“AWC”) from OFS Securities and OFS agreed to pay a fine of \$50,000. In 2012 and 2013, while operating as BBVA Securities of Puerto Rico, Inc., OFS Securities, Inc. (“OFS Securities”) failed to produce certain documents and information prior to the start of FINRA arbitration hearing as ordered by the arbitration panel and inaccurately represented

to the claimant that it did not have responsive documents under its control. OFS Securities should have been aware that, and actively considered whether, responsive documents and information could be located in its warehouse or obtained from its clearing firm. However, OFS Securities failed to produce the documents to the claimant until the hearing had already begun and thereby violated FINRA Rule 2010 and IM-12000.

- In May 2016, FINRA accepted a Letter of Acceptance, Waiver and Consent (“AWC”) from OFS and OFS agreed to pay a fine of \$40,000. During the period from July 1, 2013 through September 30, 2013, OFS purchased/sold municipal securities for five (5) customers’ accounts at an aggregate price (including any mark-down and mark up) that was not fair and reasonable, taking into consideration all relevant factors, including the best judgment of the broker, dealer or municipal dealer as to the fair market value of the securities at the time of the transactions and of any securities exchanged or traded in connection with the transaction, the expense involved in effecting the transaction, the fact that the broker, dealer or municipal securities dealer is entitled to a profit and the total amount of the transaction. OFS was fined for the amount of \$40,000 and on May 27, 2016 paid restitution to investors associated with the transaction in the amount of \$18,358.52 plus interest.
- In May 2019, FINRA accepted, without admitting or denying the findings, a Letter of Acceptance, Waiver and Consent (“AWC”) from OFS and OFS agreed to pay a fine of \$20,000. In August and September 2015, OFS included language conditioning the settlement of two arbitration proceedings on the customers’ agreements to consent and not to oppose expungement of their claims from the Central Registration Depository System (the “CRS System”). As a result, OFS violated FINRA Rules 2081 and 2010.

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

OFS is also a full-service registered broker-dealer. Securities clearing are provided on a fully disclosed basis to clients by Pershing, an affiliate of The Bank of New York Mellon Corporation.

OFS is a wholly owned subsidiary of OFG Bancorp. Other affiliates of OFS include:

- Oriental Insurance LLC, an insurance agency subject to the supervision, examination and regulation of the Office of the Commissioner of Insurance of Puerto Rico.
- Oriental Bank (the “Bank”), commercial bank subject to the supervision, examination and regulation of the Office of the Commissioner of Financial Institutions of Puerto Rico and the Federal Deposit Insurance Corporation. The Bank offers banking services such as commercial, and consumer lending, auto loans, savings and time deposit products, financial planning, and corporate and individual trust services, and capitalizes on its commercial banking network to provide mortgage lending products to its clients.

- OFG USA LLC, a commercial lender and subsidiary of the Bank.
- Oriental International Bank, Inc., an international banking entity subject to the supervision, examination and regulation of the Office of the Commissioner of Financial Institutions of Puerto Rico.
- Oriental Pension Consultants, Inc., a pension plan administrator.
- OFG Ventures LLC, a Delaware limited liability company engaged in strategic private investments.

Registered representatives of OFS sell retail investments at seven (7) branches including main office located in San Juan, Puerto Rico. As previously indicated, OFS and/or its supervised persons may, receive compensation from the sale of securities or other investment products, including mutual funds, offered outside the Envestnet and Cyrus Platform. Said compensation may be more than what they would receive if the client participated in the Envestnet Program; as such, they may have a financial incentive to recommend such securities or investment products over the Envestnet and Cyrus Program.

Registered representatives of OFS may also be insurance agents for Oriental Insurance LLC. As insurance agents, the registered representatives of OFS may recommend and purchase insurance related products for OFS advisory clients, for which they will receive separate and additional compensation.

**The situations mentioned above may present a conflict of interests. Clients are not under any obligation to engage with the OFS or the registered representatives of OFS for additional services.**

OFS has a Code of Ethics which establishes certain controls to minimize the risk of and manage areas of potential conflicts of interest. (Item 11).

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

OFS has adopted a Code of Ethics that sets forth its commitment to the highest standards of ethical conduct in its operations (“Code”). The Code establishes a series of guidelines and rules aimed at ensuring that the actions carried out by supervised persons of OFS comply with applicable federal and local laws, rules and regulations and promotes ethical conduct and sound business practices. OFS requires all employees to disclose all of their brokerage accounts relationship and of their immediate family members. It also requires the periodic reporting by supervised persons of personal securities holdings and transactions which permits the supervision of supervised person personal securities activities and facilitate the enforcement of the Code, as applicable. Furthermore, supervised persons are required to report violations to the Code. In addition, the



Code includes provisions regarding the handling and remedies available in case of Code violations.

Supervised persons of OFS are required to avoid serving their personal interests ahead of the interests of Clients and to not cause Clients to take action or not take action, for the personal benefit of the supervised person. The Code implements controls aimed at minimizing the risk of possible conflicts of interest. Among others, supervised persons are required to maintain their securities accounts and those of their immediate family in OFS. Any exception for an account outside OFS, will have to be pre-authorized and subject to controls including duplicate confirmations and custodial accounts statements.

Upon written request by any Client or prospective Client, OFS will provide a copy of the Code. Requests must be sent to OFS Compliance Officer, 254 Muñoz Rivera Avenue 2nd Floor, San Juan, Puerto Rico 00918.

### **Conflict of Interest**

As investment adviser OFS has a fiduciary duty to disclose to our clients all conflict of interest.

OFS registered representatives provide investment advice but also will receive commission-based compensation in connection with the purchase and sale of securities. These commissions are in addition and separate from advisory business. This may present a conflict of interest. In addition, registered representatives of OFS may also be insurance agents and receive commissions besides advisory fees and other commissions.

**Clients are under no obligation, to purchase securities or insurance products through OFS.**

The above conflicts of interests are not the only ones that may arise. Other conflict of interests may be disclosed throughout this Brochure, which should be read in its entirety. Notwithstanding the existence of a conflict of interest, Registered Representatives of OFS are required to place their clients' interests ahead of their own in connection with any investment advice.

### **Item 12. Brokerage Practices**

In selecting and recommending broker-dealers for client transactions and determining the reasonableness of their compensation, OFS has a "best execution" policy.

#### ***Envestnet Program***

Under the Envestnet Program, Envestnet and OFS may designate the broker of the subject Program Client's choice for the Program Client's accounts ("Broker") to provide trade execution and custodial services. Envestnet is further authorized to open broker-dealer credit accounts at applicable executing brokers and, as attorney in fact, to give instructions to an appropriate broker. When Envestnet, Sub-Manager or OFS deems a transaction to be in the best interests of a Program Client as well as other clients of Envestnet, Sub-Manager or OFS, to the extent permitted by applicable law and regulation, Envestnet, Sub-Manager or OFS are permitted to aggregate multiple client orders to obtain what Envestnet, Sub- Manager or OFS believes will be the most favorable price and/or lower execution costs at the time of execution.

Program Clients may not receive the benefit of the lowest trade price then available for any particular transaction, or Program Client account trade orders may not be able to be aggregated to reduce transactional costs. In effecting brokerage transactions, Sub- Managers, Envestnet or OFS may consider not only available prices and commission rates (including the fact that certain transaction effected through the Broker are included in the Program Fee), but also other relevant factors such as execution capabilities, research and other services provided by the broker-dealer. Sub-Managers, Envestnet, and OFS have the authority to effect transactions for the accounts with or through another broker, dealer or bank if OFS, Envestnet or Sub-Manager believes that "best execution" of transactions may be obtained through such other broker, dealer or bank, including any broker-dealer that is affiliated with OFS, Envestnet, or Sub-Manager.

Program Clients pay an asset-based fee for the brokerage/custody/clearing services provided by the broker/custodian (as opposed to transaction-based fees, such as commissions).

Envestnet operates the Programs as a directed brokerage subject to most favorable execution of client transactions. It does not require a Client to use any particular broker/custodian. For the Programs, Sub-Managers and Envestnet have the authority to effect transactions for Program Client accounts with or through a broker, dealer or bank other than that directed by the Program Client, if Envestnet or Sub-Manager believes that "best execution" of transactions may be obtained through such broker, dealer or bank, including any broker-dealer that is affiliated with OFS, Envestnet or Sub-Manager. In such cases, commissions or other compensation to the brokers in such transactions will be in addition to the Program Fee (refer to "Other Issues Relating to Fees"). For more information on brokerage activity by Envestnet refer to the Envestnet Wrap-Fee Program Brochure.

OFS, in turn, is an introducing broker on a fully disclosed basis of OFS Program Client accounts. For acting as such, OFS does not currently receive separate and typical brokerage compensation. If it did, under the Envestnet Program such compensation would be a portion of the Program Fee. OFS does not receive research or other products or services other than execution from a broker-dealer or third-party in connection with client securities transactions ("soft dollar benefits").

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

OFS Registered Representatives conduct reviews of clients' accounts periodically. Other account reviews may be triggered by and not limited to account opening, update of account documentation and purchase or sale of security.

For more information on review of accounts under the Envestnet Program, please refer to the Envestnet Wrap- -Fee Program Brochure.

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

OFS does not pay for referral business to its employees and officers. Employees of Oriental Bank (Bank) may refer potential customers to OFS. The bank may pay a nominal compensation to its employees and officers for referrals to OFS.

### **Item 15. Custody**

#### ***Envestnet Program***

Custody services are offered through Pershing, LLC. Basic monthly and annual reports are sent to Clients and offer an overview of an account's performance, including holdings with all tax-lots and unrealized gains and losses, year-to-date realized gains and losses, asset allocation pie chart and performance measurement charts displaying account performance for prior quarters and years, as well as year-to-date and since inception snapshots. The performance of up to five indices is also included for benchmarking. In addition, Pershing prepares a summary statement of all income generated by investments held in a U.S. retail (1099-eligible) account, providing the tax information that the clients need.

On a quarterly basis, Envestnet sends to OFS a report that reflects the accounts activity for the quarter (net investment, contributions, withdrawals, dividends and interest). The report includes performance measurements net of fees, charts displaying account allocations and a description for prior quarters and year's returns, as well as year-to-date and since inception snapshots. The performance of up to five indices is also included for benchmarking. OFS then sends the report to Program Clients.

Clients must carefully review and compare the statements received from Pershing with those received from Envestnet. In the event of questions please contact OFS.

**Item 16. Investment Discretion**

OFS does not provide discretionary asset management services. However, Envestnet and Cyrus typically require client discretionary authorization to them and/or sub managers.

**Item 17. Voting Client Securities*****Envestnet Program***

Per Program documentation, Program Clients authorize Envestnet, Sub-Managers and OFS to exercise discretion in voting or otherwise acting on all matters for which a security holder vote, consent, election or similar action is solicited by, or with respect to, issuers of securities beneficially held as part of the Program assets, unless otherwise agreed with Client. Client reserves the right to revoke this authority at any time.

Envestnet generally delegates its proxy voting to the Sub-Managers to whom it allocates Client assets. The Sub-Manager is responsible for voting or abstaining from voting with respect to any proxy solicitations for any securities purchased on behalf of each Program Client; provided, however, that the Client has not notified the Sub- Manager (or OFS or Envestnet which would notify the Sub-Manager) of its desire to exercise the Program Client's voting rights.

OFS does not vote proxies on behalf of Clients.

**Item 18. Financial Information**

This item is not applicable to OFS.