

# **Ausdal Financial Partners, Inc.**

**5187 Utica Ridge Road  
Davenport, IA 52807**

**563-326-2064  
[www.ausdal.com](http://www.ausdal.com)**

**FORM ADV PART 2A APPENDIX 1**

**WRAP FEE BROCHURE**

**March 31, 2023**

**This wrap fee brochure ("Brochure") provides information about the qualifications and business practices of Ausdal Financial Partners, Inc. If you have any questions about the contents of this Brochure, please contact Ausdal Financial Partners at (800) 722-8732 or [ausdal@ausdal.com](mailto:ausdal@ausdal.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.**

**Additional information about Ausdal Financial Partners is available on the SEC's website, [adviserinfo.sec.gov](http://adviserinfo.sec.gov), and searching the CRD number for the advisor: 7995.**

**Ausdal Financial Partners is a registered investment adviser. Registration with the United States Securities and Exchange Commission or any state securities authority does not imply a certain level of skill or training.**

## Item 2 Summary of Material Changes

Form ADV Part 2 requires registered investment advisers to amend their brochure when information becomes materially inaccurate. If there are any material changes to an adviser's disclosure brochure, the adviser is required to notify you and provide you with a description of the material changes.

Since the filing of our last annual updating amendment, dated March 31, 2022, we amended our Appendix 1 - Wrap Brochure and made the following material changes:

- FeeX underwent a name change to Pontera. All references to FeeX have been updated. Additionally, a description related to Pontera's held-away asset services has been added to the *Services, Fees and Compensation* and *Additional Information* sections. Refer to Item 4 and Item 9 for additional information.
- Disclosures related to brokerage-related transactions have been modified to bring clarity to such fees charged by AFP's broker-dealer for brokerage transactions in advisory accounts in Item 4.
- Disclosures related to mutual funds (including no-transaction fee ("NTF") mutual funds), mutual fund share class selection (including both mutual fund expenses and 12b-1 fees associated with certain mutual fund purchases) have been modified to clarify the efforts utilized by Advisers when recommending mutual fund purchases that are in the best interest of the clients in Item 4. Further disclosures were provided in Item 4 with respect to AFP's voluntary rebate of certain fees collected previously which were questioned by a regulatory agency.
- Disclosure cautioning the clients to evaluating the costs of the various investment advisory programs were strengthened in Item 4 in light of comments received by a regulatory agency, including disclosures related to the voluntary rebate back to clients of the difference between the cost of their programs and a less costly program.
- Disclosures related to revenue sharing programs in connection with the overnight investment in uninvested cash were strengthened in light of comments received by a regulatory agency, including disclosures related to the voluntary rebate back to clients of payments made to AFP by the clearing firm in Items 4 and 9.
- Disclosures regarding the risks associated with Leveraged and Inverse Funds were strengthened in Item 6.
- Disclosure related to the Securities Based Lending have been added to the *Services, Fees and Compensation* and *Portfolio Manager Selection & Evaluation* sections. Securities-Backed Loan or Securities-Backed Lines of Credit have associated risks and conflicts of interest. Refer to Item 4 and Item 6 for additional information.
- AFP no longer maintains a relationship with the Probabilities Fund Management, LLC ("PFM"), an SEC-registered investment adviser. Additionally, we no longer have client invested in the Probabilities Fund. All references to PFM and the Probabilities Fund have been removed from the Brochure.
- AFP underwent an ownership change. Although AFP remains a closely held corporation with no shareholder owning 25% or more of our stock, a disclosure has been added to the *Additional Information* section to attempt to fully disclose conflicts related to one of the new owners/shareholders. Refer to Item 9 for additional information.

- The PPP loan previously disclosed under the *Additional Information* section has been forgiven. Therefore, the disclosure related to the loan has been removed from Item 9.

### **Item 3 Table of Contents**

Item 1 Cover Page	Page 1
Item 2 Summary of Material Changes	Page 2
Item 3 Table of Contents	Page 4
Item 4 Services, Fees and Compensation	Page 5
Item 5 Account Requirements & Types of Clients	Page 24
Item 6 Portfolio Manager Selection & Evaluation	Page 25
Item 7 Client Information Provided To Portfolio Managers	Page 37
Item 8 Client Contact with Portfolio Managers	Page 37
Item 9 Additional Information	Page 38

## Item 4 Services, Fees and Compensation

### Description of Firm

We are an Iowa corporation headquartered in Davenport, Iowa. We were founded in 1979 as a securities broker-dealer firm, and are currently registered as a broker-dealer with the Securities and Exchange Commission as well as all 50 states and the District of Columbia. We are a member of the Financial Industry Regulatory Authority ("FINRA"). In 1991 we registered with the SEC as an investment adviser. We are a closely held corporation with no shareholder owning 25% or more of our stock.

Because we are registered as both an investment adviser and broker-dealer and are licensed as an insurance broker, we provide investment advisory services and sell securities and insurance products. Pershing, LLC ("Pershing"), serves as the clearing broker-dealer for AFP's brokerage business and provides custodial services for some of our advisory Clients. Charles Schwab & Co., Inc. ("Schwab") and TD Ameritrade, Inc. ("TD Ameritrade") serve as custodians for most advisory accounts.

This Wrap Fee Brochure ("Brochure" or "Wrap Brochure") provides important information about Ausdal Financial Partners, Inc. (referred to as "AFP," the "Firm," "we," or "us"), our Wrap Program services, our compensation, the costs of participating in our Wrap Programs, and situations where our interests may conflict with the interests of our Clients. We offer other investment advisory programs and services that are not offered on a wrap fee basis, and those are described in our Form ADV Part 2A Brochure ("General Brochure"). Clients who participate only in wrap fee programs will receive only this Wrap Brochure; Clients who also participate in non-wrap fee programs or services will also receive our General Brochure. Refer to the *Common Terms and Disclosures* below for terms and disclosures that apply to all of the programs in the Ausdal Wrap Fee Program.

Our firm offers services through our network of investment advisor representatives. Investment advisor representatives may use D/B/A names ("doing business as" names) or may have their own legal business entities whose trade names and logos are used for marketing purposes and may appear on marketing materials or client statements. You should understand that the businesses are legal entities of the investment adviser representative and not of our firm, Ausdal Financial Partners, Inc. The investment adviser representatives are under the supervision of Ausdal Financial Partners, Inc., and the advisory services of the investment adviser representative are provided through Ausdal Financial Partners, Inc. For a complete list of D/B/A or trade names please refer to Ausdal Financial Partners, Inc.'s ADV Part 1 Brochure, accessible through the SEC's website, [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov), as referenced on the cover page, or in certain instances the D/B/A or trade name is listed on your investment adviser representative's ADV 2B Brochure.

You should pay particular attention to the discussions about our various conflicts of interest because these can affect our judgment in managing your account, in choosing brokers to execute trades for your account, and in recommending custodians, among other important considerations.

You should also keep in mind that a number of separate businesses provide the various investment products and services described in this Brochure. These businesses' legal, contractual, and regulatory obligations differ in important ways depending on whether, in providing the product or service, they are acting as custodian, broker-dealer, third-party manager, or insurance company.

Clients interested in learning about our non-wrap fee programs or services may request our General Brochure from their investment adviser representative (their "Advisor") at the email address, telephone number, or street address shown in the Brochure Supplement received from your Advisor, or from our

senior management, including our Chief Compliance Officer, at the email address, telephone number, or street address shown on the front of this Wrap Brochure. Your Advisor or the home office contact can also answer questions about the information in this Brochure.

As more fully discussed in our General Brochure, we are registered as both an investment adviser and broker-dealer, and are licensed as an insurance broker, and provide investment advisory services and sell securities and insurance products. Pershing, LLC ("Pershing") serves as the clearing broker-dealer for our brokerage business and provides custodial services for some of our advisory Clients. In addition to Pershing, Charles Schwab & Co., Inc. ("Schwab") and TD Ameritrade, Inc. ("TD Ameritrade") serve as custodians for most advisory accounts, including wrap fee accounts.

### **Ausdal Wrap Fee Program**

The *Ausdal Wrap Fee Program* ("Wrap Fee Program") consists of the following individual programs (collectively, the "Managed Programs"):

- Representative-Directed Portfolio Wrap Fee Program ("RDP Program")
- Proprietary Advisory Wrap Fee Program ("Proprietary Program")
- Separately Managed Account Wrap Fee Program ("SMA Program")

This Brochure provides information about the Managed Programs. Additional information about AFP is available in our General Brochure, as described above. Additional information about the Sponsors is available in each Sponsor's Form ADV Part 2A Appendix 1 Wrap Fee Brochure ("Wrap Brochure"), and information regarding the Third-Party Managers is available in their respective Form ADV Part 2A Brochure ("Third-Party Brochure"), which are available upon request through our Advisor or from the Sponsor or Manager directly.

Because the information in this Brochure is necessarily general and does not address all details of each of the Wrap Fee Programs, Clients should refer to their individual "Advisory Agreement" and Client Fee Schedule with AFP, and where applicable, "Wrap Program Agreement" with the Sponsor of their Third-Party Program (which includes documentation designating a Third-Party Manager for the Third-Party Assets) for specific terms that apply to them. Clients should be sure to discuss any specific questions with their investment adviser representative ("Advisor").

### **Wrap Fee Programs**

#### **Representative-Directed Portfolio Wrap Program**

In the RDP Program, the Advisor will obtain information regarding the Client's personal and financial situation, and the investment objective, tolerance for risk, liquidity needs, and investment time horizon for the account (the "Managed Account") that will be managed through the RDP Program (all referred to as the "Suitability Information"), as well as any reasonable investment restrictions the Client wishes to impose.

The Advisor will assist the Client to identify a suitable allocation of the Client's RDP Program assets, and an investment style and strategy which are suitable for the Managed Account in view of the Managed Account's Suitability Information, and any reasonable investment restrictions imposed by the Client.

Clients should take care to ask the Advisor questions about the RDP Program to be sure they understand the risks, potential rewards, fees, and expenses of the Program, the strategy the Advisor expects to use, and the types of investments that are expected. Where available, Clients should

request copies of the prospectuses for the investments expected to be used in managing the Managed Account, and then ask questions about these investment before deciding to participate in the RDP Program.

Subject to the Firm's supervision, the Advisor will provide continuous and regular investment management services of the Managed Account assets consistent with the Suitability Information and the investment style or strategy identified for the Managed Account, as modified from time to time by the Advisor, in the Advisor's discretion, to achieve the Managed Account's objective.

Refer to the *Common Terms and Disclosures* below for terms and disclosures that apply to all of the programs in the Ausdal Wrap Fee Program.

### **Proprietary Advisory Wrap Fee Program**

#### *Proprietary Program*

AFP offers the Proprietary Program for Clients who choose to enroll in a program utilizing AFP's models. Generally, the models consist of varying proportions of cash, fixed income, and equity investments, and are comprised of mutual funds, money market funds, closed-end funds; exchange-trade funds ("ETFs"), including inverse and leveraged ETFs; common and preferred stocks; as well as direct obligations issued or guaranteed by the U.S. Treasury, government agencies, or government sponsored entities. If appropriate, "sweep" arrangements where cash balances are transferred into money market funds, money market deposit accounts, or bank accounts for cash management purposes, may be advised by or maintained with the account's qualified custodian ("Custodian") or an affiliate of the Custodian.

#### *The Models*

AFP's Investment Committee (or a senior executive, in the absence of the Investment Committee) is responsible for developing, managing and selecting the securities comprising the model portfolios used in the Proprietary Program.

We will invest Client assets according to one or more model portfolios developed by one of AFP's portfolio managers. These models are designed for investors with varying degrees of risk tolerance ranging from a more aggressive investment strategy to a more conservative investment approach. Once a model portfolio is selected, the Client may set reasonable restrictions on the management of the Managed Account, including the types of securities that should not be purchased, or if already held, securities that should not be sold.

### **Separately Managed Account Wrap Fee Program**

Through the Ausdal Separately Managed Account Wrap Fee Program ("SMA Program"), AFP offers Clients access to a range of professional investment management programs offered on a wrap fee basis (each a "Third-Party Wrap Fee Program" or "Third-Party Program") and sponsored by third-party investment firms (each a "Sponsor"). Information regarding current Sponsors and Third-Party Programs open to new investors changes regularly, and without notice.

This Brochure provides a general overview of the terms common to many of the Third-Party Programs. Clients interested in Third-Party Programs should inform their Advisor, who will meet with the Client to identify a suitable Sponsor, and third-party investment adviser (each a "Third-Party Manager" or "Manager") from a roster of managers available through the particular Sponsor's Third-Party Program, whose stated investment style or strategy is consistent with achieving the investment objective and other characteristics (such as volatility, liquidity, etc., the "target characteristics") Client has identified for the Managed Assets to be allocated to such Manager (the "Third-Party Assets"). Each Manager will actively manage the Third-Party Assets according to the Manager's stated

investment style or strategy for which such Manager was selected, and the target characteristics. Refer to Item 7 for information regarding the ability to impose reasonable restrictions on the management of the Managed Account and Managed Assets.

Client will receive the Sponsor's Form ADV Part 2A Appendix 1 Wrap Fee Brochure ("Wrap Brochure"), the wrap program agreement governing the terms of the Third-Party Program (the "Wrap Program Agreement," which includes any agreement or schedule designating the Third-Party Manager to manage the Third-Party Assets), and the separate Form ADV Part 2A Brochure ("Third-Party Brochure") of each Third-Party Manager designated for the Third-Party Assets.

#### **Fees for the RDP Program, Proprietary Program, and SMA Program**

*See Item 9 for additional compensation received by AFP.*

#### **Representative-Directed Portfolio Program & Proprietary Program Advisory Fees**

For RDP Program and Proprietary Program Accounts, the Client agrees to pay AFP Advisory Fees, which shall not exceed the following "Maximum Fee Rates" (expressed as annual percentage rates) stated for the indicated "Asset Tiers" in the following "RDP Program & Proprietary Program Maximum Advisory Fee Schedule" (or, "Maximum Fee Schedule"):

<b>RDP PROGRAM &amp; PROPRIETARY PROGRAM MAXIMUM ADVISORY FEE SCHEDULE*</b>	
<b>Asset Fee Tier</b>	<b>Maximum Fee Rate</b>
Up to - \$250,000	2.50%
\$250,001 - \$500,000	2.25%
\$500,001 - \$1,000,000	2.00%
Over - \$1,000,001	1.75%

\*The Client's Advisory Agreement will contain the actual amount of the Client's Advisory Fee Rate(s), the applicable Asset Tiers, whether fees are paid in advance or in arrears, whether tiers will be determined at the household or individual account level, and whether the fees are calculated by multiplying the Fee Rate for each Asset Tier times the value of assets in that Tier (the "Tiered Method") or by using a single Fee Rate based on the rate applicable to the highest Tier in which the account has assets. Advisory fees are assessed on a monthly or quarterly basis as agreed to in the applicable advisory agreement.

"Asset Fee Tiers" are based on the Managed Account Value as determined by the Custodian and is based on the actual number of days in the period (i.e., monthly or quarterly). The Client's specific billing selections are indicated on their Advisory agreement. Here is an example of 2nd quarter billing for a client with \$400,000 in their advisory account that is billed on a quarterly basis:

$\$250,000 \times 2.5\% = \$6250$  (per year) / 365 days =  $\$17.12/\text{day} \times 91$  days (April, May and June) = \$1,557.92

PLUS

$\$150,000 \times 2.25\% = \$3375$  (per year) / 365 days =  $\$9.25/\text{day} \times 91$  days (April, May and June) = \$841.75

The advisory fees for this example are \$1,557.92 + \$841.75 for a total of \$2,399.67.



We use a standard industry automated billing system that collects the information reported by the custodian for our monthly or quarterly billing calculations. There may be immaterial differences between the month-end or quarter-end market value reflected on your custodial statement and the valuation as of the last day of the billing period used for billing calculation purposes, given timing and account activity. Such differences may be caused by, but not limited to, the timing of the receipt and processing of dividends by the custodian. For example, a dividend received by the custodian may occur at the end of the month, but not fully processed and added to the account value in the custodian's system for a few days. While the billing system will add these dividends to the account value when notice of the dividend is first received, thus causing a difference in reported account value between the two systems during the time billing amounts are calculated.

### **Separately Managed Account Program Fees**

For the Separately Managed Account Program ("SMA Program") Clients will enter into an advisory agreement with AFP pursuant to which the Client agrees to pay AFP Advisory Fees for AFP's on-going advisory services with respect to a Third-Party Program the Client selects.

The maximum combined Advisory Fee Rate (expressed as an annual percentage rate) for SMA Program accounts is 3%. Some clients will see one combined fee and others will see the breakout by category. The "SMA Advisory Fee" for each SMA Program account will be made up of the following parts as applicable to the particular Third-Party Program:

- *Adviser's Fee* – A fee charge by AFP for compensation to the Adviser advising the Client.
- *Adviser Platform Fees* – A fee charged by AFP for administration and operation of a Third-Party Program where AFP serves as Sponsor of the Program. The Adviser Platform Fee will be disclosed to the Client prior to entering into the Advisory Agreement. The Platform fee typically ranges between 15 - 30 basis points.
- *Program Fee* – A fee charged by the Third-Party Program Sponsor for administration and operation of the Third-Party Program. This fee can also be labeled as an Overlay Management Fee or Platform Fee, but is separate and in addition to any Adviser Platform Fee charged by AFP.

AFP has negotiated with the Sponsors of certain Third-Party Programs to share with AFP the Program Fees the Sponsors receive from Clients (approximately 15 basis points). These payments are sometimes referred to as referral fees, or payments in support of AFP's administration or operation of the Third-Party Program.

- *Third-Party Manager Fees* – Fees charged by Third-Party Managers to manage the assets within the SMA Program Account. AFP may negotiate rates with Third-Party Managers (sometimes referred to as Model Providers, Managers, Strategists or Sub-advisors) but the Third-Party Managers determine and set the Third-Party Manager Fees. The Third-Party Manager fees will either be detailed in the Client's Advisory Agreement or they will be aggregated and included with the Program Fee and paid by the Program Sponsor. In certain Programs AFP will serve as a model manager. In these cases, AFP will receive the Third-Party Manager fee for the assets assigned to a model managed by AFP.

The combined fees for the Separately Managed Account Program as described above will be referred to collectively as the "SMA Advisory Fee" and will not exceed 3%. The Advisory Agreement will govern the SMA Advisory Fees the Client agrees to pay to participate in a Third-Party Program but in no case shall the "SMA Advisory Fee" exceed 3%.

The Sponsor is responsible for administering the SMA Program, paying Third-Party Managers (including any model providers, strategists or sub-advisors), arranging for services related to Client profiling assistance, strategic asset allocation assistance, style allocation assistance, research and evaluation of investment strategies and investments, account performance calculations, account rebalancing, account reporting, account billing administration and other operational and administrative services to assist AFP in providing advisory services. Not all services are provided with respect to all Third-Party Programs offered by a Sponsor, and not all Clients will receive or benefit from all services available, offered, or provided by a Sponsor through a Third-Party Program in which the Client participates, even though the costs of such services will be borne by all accounts participating in that Third-Party Program, or by all accounts participating in the Sponsor's Managed Programs.

Refer to the *Additional Fees & Expenses* below, regarding additional amounts Clients will incur in addition to the Advisory Fees, Adviser Platform Fees, and Program Fees.

### ***Common Terms and Disclosures Regarding Fees and Compensation***

Except as otherwise provided in this Brochure or in a Client's Advisory Agreement or Wrap Program Agreement, the following terms and disclosures apply to Managed Accounts participating in the RDP Program, Proprietary Program and SMA Program (all the "Managed Programs"). The term "Advisory Agreement" refers to an Advisory Agreement between AFP and Client in each of such programs.

### ***Investment Restrictions***

In all Managed Accounts managed by AFP, an Advisor, or supervised person, AFP permits the Client to impose reasonable restrictions on the investments not to be purchased for the Managed Account, and for investments already held in the Managed Account, to impose reasonable restrictions on the investments not to be sold. Clients should be aware that any restrictions they impose upon their account may affect the overall performance of the account. Thus, while that portion of the portfolio managed by the Advisor that did not have the restrictions may be performing consistent with the clients' expectation, the overall performance of the account, with the restrictions, may be performing better or worse than expectations.

Moreover, Clients should be aware that while AFP will permit reasonable restrictions on the investment of Managed Assets, not all Third-Party Managers accept investment restrictions with respect to management of the Third-Party Assets. Third-Party Managers establish separate and independent investment policies which take precedence over AFP's policies in the Third-Party Programs.

### ***Negotiability of Fees and Other Terms of Advisory Relationship***

Subject to limitations or restrictions of any Sponsor or Third-Party Manager, AFP has discretion to negotiate all terms and conditions with respect to each Client's relationship with AFP, including without limitation, any and all fees, minimum account sizes, minimum fees, and other terms, on a Client-by-Client, and account-by-account basis. When considering these matters, we usually consider the amount of assets to be placed under management by a Client and related accounts, anticipated future revenues and anticipated future assets or other business from the Client or related persons, and existing or anticipated relationships. We may elect, in our discretion, to aggregate related Client accounts for the purpose of achieving and negotiating the terms of a Client relationship.

Because Advisory Fees and other terms of our Managed Programs and services are negotiated separately with each Client, some accounts and Clients pay lower Advisory Fees and other amounts than other accounts and Clients. Waivers, discounts or more favorable terms not generally available to other Clients are offered to family members and friends of our Advisors, employees, and affiliates.

### *Fees Paid to Portfolio Managers*

In the RDP Program and Proprietary Program, AFP (through its supervised persons) is the portfolio manager and receives the entire Advisory Fee.

In the SMA Program and any other Managed Program where the Client is charged a Program Fee, the Program Fee includes the compensation paid to the Third-Party Manager for portfolio management services. Depending on the particular Program, Program Fees will be disclosed on the Client Fee Schedule to the Advisory Agreement with AFP, or the Wrap Program Agreement with the schedule identifying the specific Third-Party Manager managing the Third-Party Assets.

### *Calculation and Deduction of RDP Program and Proprietary Program Advisory Fees*

For RDP Program and Proprietary Program Accounts, Advisory Fees (and Adviser Platform Fees, if any) are calculated with respect to each Managed Account on a Custodian-by-Custodian basis. Advisory Fees are determined pursuant to the terms of the Client's Advisory Agreement, based on the Advisory Fee Rate(s) stated in the Advisory Agreement, and the value of Managed Assets, using the valuation date and method provided according to the Advisory Agreement. If not otherwise provided in the Advisory Agreement for RDP Program and Proprietary Program Accounts, for Advisory Fees (and any Adviser Platform Fees) payable in advance, the valuation date shall be the "end of the preceding calendar period," which shall be interpreted as the end of the calendar period preceding the period for which Advisory Fees are being calculated (e.g., calendar month or quarter); provided, for the initial period, fees shall be calculated on an asset-by-asset basis beginning as of the date each asset is "placed in the management program" (which shall mean the date credited by the Custodian to the Managed Account). For Advisory Fees (and Adviser Platform Fees, if any) payable in arrears, the valuation date shall be the end of the calendar period for which such Advisory Fees are being calculated (e.g., calendar month or quarter); provided, for the last fee calculation period, the valuation date for fees payable in arrears shall be the termination date of the Advisory Agreement).

For SMA Program Accounts (or other Program Accounts treated as SMA Program Accounts), Advisory Fees (and Adviser Platform Fees, if any) are calculated according to the terms of the Client Fee Schedule attached to the Client's Advisory Agreement with AFP, and the Sponsor's Wrap Program Agreement, subject to the Maximum Fee Rate Schedule and Maximum Combined Rates, described in this Brochure.

### *Fair Valuation of Managed Account or Managed Assets*

For most holdings, AFP will rely on the custodian's value for billing purposes. If an advisory account has holdings that are illiquid or for which the custodian is not able to provide a valuation, AFP will assign a value determined by us in good faith to reflect its fair value for RDP and Proprietary Program Accounts.

For SMA Program Accounts, Third-Party Assets shall be valued according to the terms of the Sponsor's Wrap Program Agreement.

### *Risk of Liquidations to Pay Advisory Fees, Adviser Platform Fees, and Sponsor Program Fees and Program Expenses*

The Custodian of a Managed Account will be authorized to deduct the Advisory Fees (including without limitation, any Third-Party Manager fees) and other expenses related to participation in the Ausdal Wrap Fee Program. If sufficient cash is not available in the Managed Account to pay any fees or expenses when due, the Custodian is authorized to liquidate securities selected by the Custodian or AFP (or the Sponsor or any Third-Party Manager) without prior notice to the Client. If mutual funds are liquidated, the Client may be charged any applicable contingent deferred sales charge, early

redemption fee, or fee payable to discourage short-term trading of fund shares. If the liquidated securities have declined in value, the Client will realize a loss and lose the opportunity for future appreciation of the securities.

#### *Fees Directed Debited from Client*

Subject to Client's consent, fees are directly debited from a Client's account(s), and each Client is required to provide the qualified Custodian of the Client's account(s) written authorization to deduct the fee described. The Custodian sends the Client a statement, at least quarterly, indicating all amounts disbursed from the account. The Client is responsible for verifying the accuracy of the fee calculation, as the Custodian will not verify the calculation.

#### *Fees Billed Directly to Client*

In the RDP Program, Proprietary Program, and SMA Program, the Custodian deducts the Advisory Fees or SMA Advisory Fees upon receipt of AFP's or the Sponsor's instructions, and forwards the Advisory Fees and Adviser Platform Fees to AFP. In the RDP Program and Proprietary Program, Clients may choose to have the fees billed to them directly, in lieu of deduction from the account; however, the Client must agree that any fees not paid within 60 days will be deducted automatically.

#### *Changes in Fee Calculation and Billing Procedures*

Clients should be aware that AFP may, in its sole discretion, engage one or more Sponsors of Third-Party Programs (or service providers they designate) to act as collection agents with respect to AFP's Advisory Fees and Adviser Platform Fees, and we intend to work with each such Sponsor, to the extent we believe reasonable, to coordinate and improve the efficiency our fee billing, calculation, and collection procedures so that they are consistent with the procedures used by the Sponsor of each Third-Party Program. Consequently, in our discretion, we may change the billing and valuation periods and assumptions for calculating Advisory Fees and Adviser Platform Fees from those described above or in the Client's Advisory Agreement, as we determine appropriate so that they reasonably reflect the procedures used by each Sponsor. However, such changes will not affect the Advisory Fee or SMA Advisory Fee agreed to in your Advisory Agreement, unless we provide you with at least 30 days' prior notice of such changes. Advisory Fees and Adviser Platform Fees are not charged on the basis of a share of capital gains upon or capital appreciation of any Managed Account or Managed Assets.

#### *Management of Account Until We Receive Written Notice*

Unless and until the Client notifies us in writing to designate a different portfolio for their account, to notify us of material changes in their Suitability Information, or to impose reasonable restrictions on the investment of their account, we will continue to manage the account according to the Suitability Information in our records. Clients should inform us promptly of significant changes in their individual or family circumstances or financial situation, or in the investment goals or objectives, investment time horizon, tolerance for risk, or liquidity needs of the account so that appropriate changes can be made.

#### *Changes In The Portfolios*

We may change, add, or remove portfolios (and the objectives or strategy of any portfolio) from time to time, without prior notice to the Client. If a portfolio is changed or removed, we will designate for the account a suitable remaining portfolio, and will notify the Client that such designation has occurred. If the Client objects to such designation, we may terminate the Advisory Agreement and liquidate the account.

#### *Termination of Advisory Agreements*

Subject to the terms of any Wrap Program Agreement, an Advisory Agreement may be terminated by the Client or us upon written notice to the other, as provided in the Advisory Agreement. If Client terminates the Advisory Agreement within five business days of the effective date of the Advisory Agreement, Client shall receive a full refund of any prepaid fees. If the Advisory Agreement is

terminated more than five business days after the effective date, any prepaid, but unearned Advisory Fees, if any, for the final calendar period of the Agreement shall be prorated based on the number of days the Advisory Agreement was in effect during such calendar period, and the unearned portion shall be refunded to Client within 30 days; and any earned but unpaid Advisory Fees (and any Adviser Platform Fees or other amounts) owed to AFP will become immediately due and payable upon termination of the Advisory Agreement.

After an Advisory Agreement has been terminated: Client will be charged commissions, sales charges, and transaction, clearance, settlement, and custodial charges, at prevailing rates, by us (in our capacity as introducing broker-dealer) and any executing or carrying broker-dealer. Client will be responsible for monitoring all transactions and assets; and AFP shall not have any obligation to monitor or make recommendations with respect to any account or assets.

#### Discretionary or Non-Discretionary Accounts

On the Advisory Agreement, Clients shall indicate whether they grant discretionary authority to AFP (and Advisor, on AFP's behalf) to purchase and sell securities, and act as the Client's limited agent to effect transactions for the Client's Managed Account and Managed Assets, without the Client's prior knowledge or consent. The discretionary authorization remains in effect until terminated or changed by the Client in writing.

Discretion does not allow AFP or its Advisors to withdraw money from the Clients' accounts other than for payment of advisory fees.

Clients may choose not to grant AFP and the Advisor discretionary authority by marking "Non-Discretionary Trading Authorization" on the Advisory Agreement. Orders for non-discretionary accounts will usually not be included in block orders with discretionary accounts, and these accounts will not receive the benefits of an average price account, as used with orders for discretionary accounts. Consequently, the quality of execution, and overall performance of non-discretionary accounts may be less favorable, as compared to discretionary accounts.

#### Differences among Advisors' Accounts; AFP Supervision

Advisors follow different investment strategies and styles, and adjust their investment selections depending on their Clients' personal and financial situation, and the investment objective, risk tolerance, liquidity needs, and investment time horizon of the account they are managing. Consequently, it is expected that the levels of volatility, fees, expenses, returns, and performance will, and do, vary significantly among Managed Accounts managed by the same Advisor and among Managed Accounts managed by different Advisors.

In managing Client accounts, Advisors are acting on behalf of AFP, and the discretion granted by the Client, is granted to AFP. Advisors exercise such discretion in their capacity as AFP's investment adviser representative. As supervisor of the Advisors, AFP monitors Client Accounts. However, AFP does not direct or mandate the investment strategies or styles the Advisors follow in managing their Clients' Accounts.

Since our investment strategies and advice are based on each Client's specific financial situation, the investment advice Advisors provide to you may be different or conflicting with the advice our Advisors give to other Clients regarding the same security or investment.

#### Types of Investments

For the RDP Program and Proprietary Portfolios for which an Advisor or other AFP supervised person serves as portfolio manager, the Managed Assets may be invested in a portfolio allocated among various asset classes. The investment types may include: mutual funds; money market funds; closed-



end funds; exchange-traded funds ("ETFs"), including inverse and leveraged ETFs; common and preferred stocks; real estate investment trusts ("REITs"); business development companies; non-traded closed end funds; as well as direct obligations issued or guaranteed by the U.S. Treasury, government agencies, or government sponsored entities. If appropriate, "sweep" arrangements are used where cash balances are transferred into money market funds, money market deposit accounts, or bank accounts for cash management purposes, which may be advised by or maintained with the account's qualified custodian ("Custodian") or an affiliate of the Custodian.

*Brokers for Managed Accounts and Non-Program Brokers*

AFP will act as introducing broker and TD Ameritrade, Pershing, or Schwab (or other qualified custodian acceptable to AFP and a Sponsor) (the "Custodian") will serve as custodian and broker-dealer for the Managed Account, except in the limited circumstances of a trade placed with a non-program broker (explained below).

In a Third-Party Program, the designated broker-dealer executes and clears purchase and sale orders placed by the Managed Account's portfolio manager, provides transaction confirmations, account statements, annual reports, prospectuses, and tax information, and maintains custody of Client cash and securities. However, in the event that a portfolio manager reasonably believes in good faith that another broker or dealer will provide better trade execution considering all factors, including the net price, then it may execute the transaction through another broker (a "non-program broker"). In these circumstances, the account will be charged the separate brokerage commissions and other transaction costs of the non-program broker.

Brokerage arrangements for certain Third-Party Programs will be handled on the basis of "directed brokerage subject to most favorable execution." This means that the Client will direct all the portfolio manager(s) of the account's assets to place purchase and sale orders through a specific broker-dealer.

When a Client directs the use of a particular broker-dealer, the portfolio manager will not aggregate the Client's orders with the orders of other Clients. Orders for these accounts will not be placed until after orders have been placed for accounts that have not directed the use of a particular broker. As a result, the Client will not receive the benefit of reduced transaction costs or better prices that may result from aggregation of Client orders or earlier execution. Further, when the portfolio manager is directed to use a particular broker-dealer, it will not have the authority to negotiate commissions, obtain volume discounts, or seek price improvement from other broker-dealers.

Consequently, Clients should understand that the direction to place orders with a broker-dealer may result in the portfolio manager not achieving most favorable execution of the Client's transactions. This practice may cost the Client more than if the portfolio manager had discretion to select the broker-dealer. A disparity may arise such that Clients who direct brokerage may receive less favorable prices than Clients who do not direct brokerage.

Notwithstanding a directed brokerage provision, these programs often authorize the portfolio manager to effect transactions with a non-program broker, if the portfolio manager believes that "best execution" may be obtained through such non-program broker.

In placing orders with a non-program broker, the portfolio manager's primary objective will be to obtain prompt execution of orders at the most favorable prices reasonably obtainable. In doing so, the portfolio manager may consider a number of factors, including, without limitation, the overall direct net economic result to the Client, the financial strength, reputation and stability of the non-program broker, the efficiency with which the transaction is effected, the ability to effect the transaction at all, the availability of the broker to stand ready to execute possibly difficult transactions in the future and other matters involved in the receipt of brokerage services. In these circumstances, however, the Client's

account will be charged the separate brokerage commissions and other transaction costs of the non-program broker. The separate brokerage commissions and other transaction costs are referred to as "Trade Away Costs".

Trade Away Costs are not included in your wrap fee and vary by custodian and broker. These increased costs can erode your returns.

#### Held Away Accounts

We use a platform provided by Pontera to manage held away assets such as defined contribution plan participant accounts, with discretion. The Pontera platform allows us to avoid being considered to have custody of Client funds since we do not have direct access to or direct use of Client log-in credentials to affect trades. We are not affiliated with Pontera in any way and receive no compensation from Pontera for using their platform. For certain 401k accounts, plan participants can authorize us to place trades using Pontera. Those clients who do not provide us with such authorization must place any trades in the 401k accounts themselves through their plan provider.

A link will be provided to the Client allowing them to connect an account(s) to the platform provided by Pontera. Once a Client account is connected to the platform, we will review the current account allocations. When deemed necessary, we will rebalance the account, taking into consideration client investment goals and risk tolerance, and any change in allocations.

#### Taxes; Services by Accountants

AFP and Advisor will use reasonable efforts to follow the instructions of Client and Client's tax advisors regarding the timing and recognition of taxable gains and losses, subject to applicable tax laws and regulations, as we understand them. Client must acknowledge AFP and Advisor are not acting as accountants or tax advisors, and are not providing legal or tax advice. Client must rely on his or her own tax advisors with respect to the tax consequences of transactions involving the Managed Assets; provided, where an Advisor conducts business as an accountant and provides tax advice for Clients separate and apart from services as an investment adviser representative on behalf of AFP, Advisor will request the Clients' to acknowledge in writing that such advice is provided by the Advisor-Accountant in his or her separate capacity and is not provided by or on behalf of AFP and AFP has no responsibility or liability for the advice provided in such separate capacity.

#### **Information About Wrap Fee Programs**

The Managed Programs are offered as "wrap fee" programs. Wrap fee programs have important differences from traditional investment advisory arrangements.

In a traditional investment advisory arrangement, the investment adviser provides investment advisory services for managing the Client's account, and then charges the Client an advisory fee that is based on a percentage of the account's assets (referred to as an "asset-based fee"). When the investment adviser places trade orders with a broker-dealer to invest the account's assets, the account pays brokerage commissions for the broker's services in executing the trade plus related costs (all referred to as "transaction-based costs").

By contrast, in a wrap fee program, the Client pays a single fee (the "wrap fee") that includes both the advisory services of the account's investment adviser and the brokerage services of the account's broker (subject to very limited exceptions stated in each program's agreements), and may also include custodial services of the account's custodian. The wrap fee is based on a percentage of the account's assets. In Wrap Fee Programs, the total wrap fee is the combination of the Advisory Fee and the Program Fee.

Although wrap fee programs can be beneficial for some Clients, they are not appropriate for everyone. Some Clients may pay higher overall costs in a wrap program than in a traditional program where they pay separately for investment advisory services and brokerage costs. The benefits of a wrap fee arrangement depend on a number of factors, most particularly the amount of the wrap fee, the number and frequency of account trades, the types of securities the account will trade, and the brokerage commission cost per trade.

Wrap fee programs calculate their fees based, in part, on certain assumptions regarding their expected brokerage commissions and other transaction costs. Clients who choose strategies with modest levels of trading would likely not incur sufficient transaction costs (if they paid commissions out-of-pocket) to justify the higher fees charged in a wrap fee program.

For example, a traditional program that emphasizes the use of "no-transaction fee" mutual funds ("NTF Funds"), for example, would incur very low (or no) transaction costs; as such, these Clients would not benefit from the lack of transaction charges in a wrap fee program. Similarly, Clients who do not expect their account to trade frequently or who have a history of a relatively small number of trades each year may find a wrap fee arrangement to be more costly than paying the separate costs of brokerage commissions and fees for investment advice.

A wrap fee arrangement is more likely to be beneficial for accounts that expect relatively frequent trading, such as where the account intends to pursue an active trading strategy using securities for which the transaction costs are relatively higher. In that case, the single wrap fee may cost less than the combined investment advisory fees and brokerage commissions that would be charged in a traditional arrangement.

Clients are cautioned to review the information regarding the cost of the wrap fee (the combination of the Advisory Fee and the Program Fee), the anticipated level of trading of the strategy they select, the approximate transaction costs, and Advisory Fees they might incur in a traditional arrangement, among the other matters discussed in this Brochure, to understand the costs and factors they should consider when deciding whether to participate in (or to continue to participate in) the Wrap Fee Programs.

No assumption should be made that any particular fee arrangement, such as a wrap fee arrangement or a portfolio management service of any nature will provide better returns than any other fee arrangement, service, or investment strategy.

Fees paid by Clients in the Wrap Programs may be more or less than fees charged for advisory, custodial or brokerage services offered separately, depending on the nature, size and frequency of account transactions, the costs of transactions, Manager fees, and other services.

Clients should also consider that a wrap fee arrangement creates a disincentive to trade wrap fee accounts because the execution costs of each trade will reduce the potential profit from the wrap fee. A wrap program sponsor may have an incentive to limit referrals to or may exclude outright from its program portfolio managers that trade actively. If the transaction charges are paid for by your Advisor, the Advisor has an incentive to reduce the number of trades entered for your account(s). This is a conflict of interest because it saves the Advisor money while you pay increased fees in the wrap program. This is often referred to as "reverse churning."

### **Additional Fees & Expenses**

In the Managed Programs, in addition to the Advisory Fees, Adviser Platform Fees, and Program Fees provided under the terms of the Advisory Agreement and Wrap Program Agreement, Clients will pay the following additional fees and expenses:



- Brokerage and Investment Expenses
- Investment Company Expenses
- Cash Management Expenses
- Custodial Expenses

#### Brokerage and Investment Expenses

Client accounts will generally invest in mutual funds, ETFs, money market funds, and closed end funds, but may also invest in stocks, bonds, and other types of securities. Although many of the investment company investments are "load-waived" investments, Clients should expect that their account will incur some or all of the Brokerage and Investment Expenses described below.

Client accounts will pay their Custodian (Pershing, TD Ameritrade, or Schwab) fees. Clients will also pay other costs that could significantly increase your overall expenses and decrease any profits from these programs. These fees, outlined below, are automatically deducted from the account at the time of the trade(s).

- dealer spread (mark-up/mark-down) incurred when securities are purchased on principal basis, rather than on an "agency basis" (where a commission would be charged); fixed income securities tend to be bought and sold more frequently on a principal basis, so accounts that invest more frequently in fixed income securities may incur the cost of the dealer mark-up/down for each purchase and sale;
- trade away costs as outlined above;
- margin interest charged by the custodian's broker-dealer affiliate; and
- service, handling, delivery, and mailing fees, electronic wire transfer fees, and other miscellaneous expenses related to the Client's account.

#### Investment Company Expenses

Mutual funds, money market funds, exchange-traded funds ("ETFs"), closed-end funds, and variable products (all referred to as a "fund") deduct from their assets the internal management fees, operating costs, and investment expenses they incur to operate the fund. Variable products also deduct mortality expenses. These internal expenses generally include recordkeeping fees, and transfer and sub-transfer agent fees, among other fees and expenses. All of these represent indirect costs that are charged to the fund's shareholders. Clients should review these expenses carefully, especially among the different share classes offered on the same mutual fund within the same fund family, as such expenses differ from one share class to another. Clients should take that into consideration when selecting a specific share class within a mutual fund family and use that, in addition to other fees, to evaluate the full cost of the investment. While AFP advisers will take the expense into consideration when recommending a specific share class, there are other factors involved that would cause the adviser to select one share class over another. Clients are advised to consult with their AFP advisers respecting the overall costs of their investments.

Frequently, these internal expenses also include "Distribution Fees." These amounts are deducted from the fund's assets to compensate brokers who sell fund shares, as well as to pay for advertising, printing and mailing prospectuses to new investors, and printing and mailing sales literature. Mutual fund internal expenses also commonly include "Shareholder Service Fees" which are amounts deducted from the fund's assets to pay the costs of responding to investor inquiries and providing investors with information about their accounts.

Distribution Fees and Shareholder Service Fees are referred to collectively as "12b-1 Fees," named after the SEC rule that adopted them. The 12b-1 Fees are calculated for each class of shares of a fund, and are calculated as a percentage of the total assets attributable to the share class. The 12b-1 Fees, investment management fees, and other ongoing expenses are described in the fund's

prospectus Fee Table. These fees will vary from fund to fund and for different share classes of the same fund. You can use prospectus Fee Tables to help compare the annual expenses of different funds.

#### Cash Management Fees and Expenses

Cash in a Client's account that is awaiting investment or reinvestment may be invested in a cash balance, money market fund, or deposit account at the Custodian (or their affiliate), pursuant to an automatic cash "sweep" program. AFP receives compensation in connection with the Pershing Cash Management Sweep Program as outlined below. Clients should refer to the Prospectus and Statements of Additional Information of the money market funds in which they invest for further information regarding such payments. Refer also to Item 9 of this Brochure for additional details around this conflict of interest.

Cash balances in the Advisory Program are also included in the value of account assets used to calculate the Advisory Fees and other asset-based fees we charge to your AFP advisory accounts.

The Bank Deposit Sweep Program is a core account investment vehicle used to hold cash balances awaiting reinvestment. The cash balance in a brokerage account at Pershing, Schwab or TD Ameritrade will be automatically deposited or "swept" into an interest-bearing Bank Deposit Sweep Program account. Clients utilizing Pershing as a custodian will default to a Dreyfus Government Money Market Fund in the Bank Deposit Sweep Program. However, clients are allowed to choose another investment vehicle for their cash balances in the brokerage account to be invested on an overnight basis. In some cases, the clients' selection may result in an investment vehicle in which Pershing will make a "Participation Payment" to AFP for deposits over a certain minimum, in addition to paying the interest rate to the clients. The Participation Payment is made at the sole discretion of Pershing, with no input from AFP as to the size or calculation of such payment and, on occasion, will be shared with AFP at Pershing's sole and absolute discretion. These investment vehicles are not typically recommended by AFP's advisers, who generally will continue to recommend those investment vehicles that are in the best interest of their clients (including the selection of those investment vehicles that have the highest investment yields and/or lower costs). However, clients selecting an investment vehicle that makes a Participation Payment to Pershing, should note that the investments in these investment vehicles present a conflict of interest to AFP since AFP may be perceived to have an incentive to recommend sweep account options that result in AFP receiving revenue sharing as opposed to options that did not pay (or pay less) revenue sharing to AFP, even though the AFP advisers are not aware of which investment vehicles make a Participation Payment to AFP and which do not. Moreover, AFP does not have any knowledge as to whether Pershing will continue to share Participation Payments with AFP or discontinue such payments since Pershing has the sole and absolute decision as to whether or not it will share Participation Payments with AFP.

An investment in an FDIC-Insured Deposit Program is protected by FDIC insurance and therefore not protected by Securities Investor Protection Corporation (SIPC). An investment in a money market mutual fund is not insured or guaranteed by the Federal Deposit Insured Corporation or any other government agency but is protected by Securities Investor Protection Corporation (SIPC). Although the funds seek to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investment in a money market fund.

AFP receives compensation in connection with the Pershing Cash Management Sweep Program, which pays AFP a "distribution" fee based on the average money market fund balance, which can range from 10 to 50 basis points with respect to assets vested in money market funds (or from \$0.10 to \$0.50 for every \$100 annually), depending on the total amount of eligible assets in the fund Pershing Cash Management Sweep Program.

Clients should refer to the Prospectus and Statements of Additional Information of the money market funds in which they invest for further information regarding such payments. The possibility of compensation provides an incentive for us to invest Client accounts in Pershing custodial accounts to increase the compensation we receive as Clients use the cash management features Pershing offers. This also provides an incentive for us to invest the account so as to increase our compensation, which may not necessarily represent the optimal investment of the Client's assets. Our recommendation of these investment products is based on the compensation we will receive rather than the Client's interest in the lowest cost, or better performing cash management products and services.

AFP does not receive distribution fees from the Schwab Cash Sweep Program or the TD Ameritrade Cash Sweep Program.

The interest you earn through the Bank Sweep Program may be less that 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. Clients pay Advisory Fees on cash in the Cash Sweep Program, in addition to receiving a lower than market interest rate.

#### Custodial Expenses

AFP will not have possession of Managed Assets. To participate in the Managed Programs, the Managed Assets must be maintained in an account (either the Managed Account or a Third-Party Account, as described in this Brochure) under Client's name with a Custodian designated for the particular Managed Program.

The Custodial account will be governed by a separate agreement (each a "Custodial Agreement") between the Client and each Custodian, and Client will be solely responsible for negotiating the terms of such agreement. The Custodial account will bear all fees and expenses of its Custodian and of transactions for such account, according to Client's agreement with the Custodian, all of which will be separate from and in addition to the Advisory Fees, Adviser Platform Fees, and Sponsor Program Fees payable pursuant to the Advisory Agreement or Wrap Program Agreement.

Clients must pay the cost of services provided by the Custodian for: (1) arranging for the receipt and delivery of securities that are purchased, sold, borrowed or loaned for the Custodial account; (2) making and receiving payments with respect to Custodial account transactions and securities; (3) maintaining custody of Custodial account securities; and (4) maintaining custody of cash, receiving dividends, and processing exchanges, distributions, and rights accruing to the Custodial account. The specific fees and terms of each Custodian's services are described in the Client's separate Custodial Agreement(s). Please refer to Item 9, under the Compensation from Custodians subsection for additional information.

#### Securities Based Lending

AFP, or AFP's Advisors, can recommend that certain clients with liquidity needs utilize securities-based lending as an alternative to liquidating a portion of the investment portfolio. A Securities-Backed Loan or Securities-Backed Lines of Credit ("SBL") is a loan and is generally an interest-only revolving credit line backed by nonqualified securities held in the portfolio. AFP only recommends such borrowing for non-investment needs, such as non-purpose loans and other financing needs. SBL's are available through Broadridge's Wealth Lending Network. AFP and Broadridge have a revenue sharing agreement that varies between 26 - 60 basis points (a basis point = 1/100th of 1%) based on the size of the loan and is paid out over a two-year period.

This creates a conflict of interest as there is a financial incentive for the AFP, or AFP's Advisors, to recommend a SBL to you. You should carefully consider the risks associated with securities based-lending. Please refer to the *Methods of Analysis, Investment Strategies and Risk of Loss* section for additional details and risks associated with the use of securities-backed lines of credit.

### **Compensation from the Sale of Securities and Other Products**

AFP is dually-registered as a broker-dealer and investment adviser and is also licensed as an insurance agency. Each of our officers and most of our Advisors are registered as broker-dealer registered representatives. Many are also appointed as agents for life insurance companies. In AFP's capacity as an investment adviser, it receives Advisory Fees (and in some programs, Advisor Platform Fees) from advisory clients. Additionally, in some programs, AFP receives a share of Sponsor Program Fees. AFP shares these forms of advisory compensation with the Advisors. Additional information can be found under Item 9.

As registered representatives of AFP and insurance agents, Representatives and Agents may recommend that a Client purchase or sell investments or insurance products, reallocate existing investments, or take steps to implement a financial plan outside of a Managed Account. If the Client elects to implement the recommendations regarding any investment or insurance products outside of a Managed Account the Representative or Agent will receive reasonable and customary compensation (including without limitation, commissions, asset-based sales charges or service fees, such as 12b-1 Fees from the sale of mutual funds, 529 Plans, or variable products, or commissions from long-term care or other insurance products). Such compensation will be separate from and in addition to the Advisory Fees, Adviser Platform Fees, or share of Sponsor Program Fees. The possibility of receiving such additional compensation creates a conflict of interest because it provides an incentive for the Representative or Agent to recommend such investment or insurance products based on the compensation ("commissions") the Representative or Agent would receive rather than based solely on the Client's investment or insurance needs. Generally initial commissions received are higher than advisory fees.

Additionally, AFP and the Representatives can select or recommend, and in many instances, will select or recommend to Clients, investments in mutual fund (or variable annuity separate account) share classes that pay sales charges and 12b-1 Fees when clients are eligible to purchase share classes of the same funds (or separate accounts) without sales charges or 12b-1 Fees, and are less expensive. The ability to earn the higher amount of compensation creates a conflict of interest by providing the incentive to recommend such share classes based on the benefit to the Representative rather than the Client's interest in the most economical investment.

Clients are under no obligation, contractually or otherwise, to purchase investment or insurance products through AFP, or a Representative or Agent, or otherwise to implement or act upon AFP's or a Representative's or Agent's recommendations. Clients can generally purchase similar investment or insurance products or services through other brokers, dealers, insurance agencies, or other financial intermediaries that are not affiliated with AFP. Refer to Mutual Fund Share Classes under Item 9 for further information regarding the conflicts of interest which exist.

### **Mutual Fund Share Classes**

Depending on the mutual fund share class selected by AFP or its Advisors, 12b-1 Fees are still paid by the mutual fund sponsor. These 12b-1 Fees can be shared with Advisors if the Advisor is also registered as a Representative with AFP, which can cause a conflict of interest. These 12b-1 Fees increase the fees you pay and reduce your returns. AFP Advisors will generally recommend a mutual fund share class that does not pay a 12b-1 fee, unless facts and circumstances demonstrate to the Advisers, using their best business judgement, that the share class paying a 12b-1 fee is in the best interest of the client over the share class that does not pay a 12b-1 fee. AFP has also established a

systemic control for those accounts that utilized Pershing as its clearing firm and custodian, wherein all 12b-1 fees paid by Pershing to AFP will be automatically collected and rebated back to its clients. Notwithstanding its systemic solutions, AFP has discovered that, in the recent past, it has collected certain 12b-1 fees where it was acting as the broker-dealer for certain of its advisory accounts. As a result of such discovery, AFP had made a voluntary rebate of the 12b-1 fees to the effected advisory accounts. ***Please note that the rebate of the 12b-1 fees only applied to 12b-1 fees which would be paid by the Custodian to AFP.*** Thus, there is no automatic rebate of the 12b-1 fees for accounts cleared at Schwab or TD Ameritrade.

You may purchase mutual funds directly with the mutual fund company or through a brokerage account. Mutual funds can offer no-load funds (meaning they'll have no sales charges) or load funds (meaning they'll have sales charges). Mutual fund companies pay AFP different sales charges and 12b-1 fees for different share classes and for different mutual funds held within the same mutual fund company. In addition, sales charges and 12b-1 fees are different from mutual fund company to mutual fund company. When you buy mutual fund shares through your Advisor, you have the option to choose from a number of different share classes. While these share classes represent ownership of the same portfolio – offered by the same fund company and managed by the same investment adviser – each share class has a different cost structure, which affects the costs you pay and can impact your investment returns. The different share classes you transact in also affect how much AFP and your Advisor are compensated. This creates a conflict of interest since your Advisor might be able to recommend a share class that compensates him/her a larger amount and thus, costs you more.

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. Similarly, some mutual fund issuers also offer institutional share classes ("Institutional Shares"), which are designed for institutional investors. Like the Advisory Shares, the availability of these Institutional Shares is determined by the product issuer or sponsor and generally requires a large minimum initial investment. However, some of these mutual fund issuers will waive or reduce the initial minimum investment for advisory accounts. In the past, AFP did not invest clients in the Institutional Share Class when they did not meet the initial investment minimum noted in the mutual fund prospectus. As a result, a regulatory agency took issue with AFP not investing clients in the institutional share class despite being shown that the prospectus prohibited any initial investment that did not meet the stated minimum. In spite of the language in the prospectus to the contrary, AFP decided to voluntarily rebate back the difference between the cost of the Institutional Shares and the shares that were purchased. In general, what differentiates Advisory and Institutional Shares from traditional mutual fund shares is that Advisory and Institutional 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. The use of Advisory and Institutional Shares generally provides a lower cost share class to clients which is to the client's advantage.

AFP Advisors review the share classes offered by the mutual fund issuer to determine which share class is in the best interest of the clients and generally recommend the share class that is the least expensive to the client, unless there are specific facts and circumstances which make a more expensive share class a better choice to meet the client needs. On occasion, AFP may discover that a more expensive share class is held in an advisory account, either by virtue of the position being transferred into the account from another firm or otherwise. If that is the case, AFP will assess whether such share class is in the best interest of the client and, if not, it will convert the share class to a lower-cost share class, if one is available from the issuer.

Some of AFP's custodians, notably Schwab and TD Ameritrade, will offer certain mutual funds as no-transaction fee funds ("NTF funds") wherein clients would not be charged any transaction fees associated with the purchase and sale of the NTF funds in their Schwab or TD Ameritrade accounts.



Generally speaking, these NTF funds pay a 12b-1 fees to the sponsor (either Schwab or TD Ameritrade) and not to AFP. In the recent past, a regulatory agency took issue with AFP's selection of NTF funds for certain of their clients when the use of non-NTF funds may be less costly for their clients, despite the payment of the 12b-1 fees to Schwab or TD Ameritrade. These included accounts that made large mutual fund purchases, where the transaction fees associated with such larger purchases would be less than the 12b-1 fees payable to Schwab or TD Ameritrade. Similarly, NTF funds were used in some wrap fee accounts, where no transaction fees would be assessed. While AFP maintained that their clients desired the NTF funds over the non-NTF funds with transaction fees for convenience purposes, it did not acquire written client confirmation of such desire. Accordingly, AFP decided to voluntarily rebate the difference in the cost assessed to the client between the investment in the NTF Funds versus the cost of investments in a non-NTF Fund.

Clients who transfer securities into the Program bear the expense of any contingent or deferred sales loads incurred upon selling the product or converting the share class to a lower-cost share class. Clients also have the ability to retain the higher cost share class until any contingent or deferred sales loads have passed before including them in the Account.

#### Evaluate All Costs of Our Programs

When evaluating the overall costs and benefits of our investment programs, Clients should consider not just our Advisory Fees and Adviser Platform Fees (where applicable), but also the potential Brokerage and Investment Expenses, Custodial Expenses, the Mutual Fund and ETF Expenses, and the Cash Management Fees and Expenses associated with each of our different programs. Not all investment programs charge platform fees. Clients should consider carefully all of the direct and indirect fees and expenses of our services for each of our programs and the investment products we recommend to fully understand the total costs and assess the value of our services and the selection of the program that is in the best interest of the clients. Clients should be aware that the use of some programs may be more costly than the use of others, in light of overall expenses, fees and charges associated with one program versus the other (including wrap fee programs versus non-wrap fee programs). In the past, a regulatory agency took issue with AFP for selecting a certain program for its clients when there was a program that had a less overall cost, despite the desires of the client to invest in a certain program for reasons other than costs. As a result, AFP made a voluntary rebate to those clients of the difference between the cost of the program that they were invested in and the cost of the less expensive program. Clients are advised to consult their Advisor regarding the various programs and their associated fees and expenses. We note that fees and expenses are an important consideration since these charges lower an investor's returns.

#### Purchases of Similar Products and Services from Other Firms

Clients are under no obligation to accept any recommendation made by AFP or our Advisors or Representatives to enter into any transaction to purchase any securities, insurance, or other investment products; Clients have the option to purchase investment products we recommend through other brokers or agents that are not affiliated with AFP. If a Client wishes to purchase such products, they may complete the purchase through any duly licensed and authorized broker-dealer, insurance agency or other financial services firm. However, they would not receive the benefit of our advice if purchased through a third party. Our Advisory Fees and the other costs of our programs are higher or lower than amounts charged by other investment advisers or financial services firms for similar services and who may provide better performance or lower risk.

Clients may also purchase mutual funds or other investment products or services directly from mutual fund companies, which may be available on a low or "no-load" basis. Although we do recommend "load-waived" mutual fund share classes, they may carry 12b-1 Fees higher than a Client may be able to obtain through a Client's direct purchases from a fund company.

If a Client chooses to purchase investments directly or through another intermediary, the Client will not receive the benefit of the services we provide in determining which investment products or services may be appropriate in view of the Client's financial situation, investment objectives, risk tolerance, and liquidity needs.

#### *No Reduction or Offset of Advisory Fees or Adviser Platform Fees*

We do not reduce or offset Advisory Fees or SMA Advisory Fees by any of the Additional Compensation, or any other direct or indirect compensation we receive from any custodian, broker, mutual fund company, or insurance company based on or as a result of a Client's purchase or sale of securities, insurance, or other investment products, or based on the value of a Client's account, free credit balance, margin account balance, or retirement account balances. This creates a conflict of interest as it is possible to receive compensation from the commissions earned as well as advisory fees on the same investments. Refer to Item 9 regarding compensation from Sponsors of Third-Party Programs and other third-parties.

#### *Addressing Our Conflicts of Interest*

Each form of Additional Compensation (except the Asset-Based Sales Charges from Client purchases at Pershing, which AFP returns to the Client) creates a conflict of interest in that it provides an incentive to recommend or select for the Client the particular product or service based on the compensation (or other economic benefit) to be received by AFP or the Representative, rather than based solely on the Client's need for such product or service. We seek to address these conflicts of interest as follows:

- we disclose these conflicts to our Clients in this Brochure;
- we collect and maintain adequate information about our Clients and their accounts, including their financial circumstances, investment objectives, and risk tolerance, and we conduct regular account reviews to confirm investment selections or recommendations are suitable;
- we periodically review overall holdings to identify significant disparities indicative of unusual treatment;
- we review our systems to ensure our 12b-1 surveillance and other compliance systems are operating, as intended; and
- we educate our Representatives and employees regarding their fiduciary responsibilities, regardless of fee arrangements.

Clients should refer to Item 9 regarding recommendations to purchase investment or insurance products, and additional forms of compensation AFP receives from custodians and third-parties.

#### **Compensation and Financial Incentive**

##### *AFP Supervised Persons Recommending this Wrap Fee Program Receive Compensation as a Result of Client Participation in the Managed Programs*

The Client's Advisor is generally the person who recommends a Wrap Program to the Client. Advisors are paid a share of the Advisory Fees received by AFP from Clients who participate in the Wrap Programs.

Virtually all Advisors are also Representatives, and for Clients who choose a traditional arrangement where the Client pays separately for investment advice and brokerage services, the Representative will receive a share of brokerage commissions and a share of any advisory fees paid by the Client.

Depending upon a number of factors, particularly the type of securities in the Client's account, and the size, frequency, and cost of Client transactions, changes in account value over time, Client's ability to negotiate fees or commissions, and the amount of Client's wrap program fee, evaluated in light of the

current low cost for most brokerage transactions, the wrap program fee may be higher than the amount the Advisor would receive if the Client paid separately for investment advice, brokerage and other services.

Where compensation an Advisor can expect to earn from a traditional advisory fee plus brokerage commission arrangement is less than the compensation expected from a wrap fee arrangement, the Advisor will have a financial incentive to recommend the wrap fee arrangement over other programs or services based on the increased compensation to be received rather than the Client's interest in obtaining the most suitable investments for the lowest costs.

## **Item 5 Account Requirements & Types of Clients**

### **Account Requirements**

#### *Minimum Account Size*

AFP does not impose a minimum account size. Third-Party Programs and Managers may impose minimum sizes to open and maintain accounts, which often exceed \$100,000 or higher. The SMA Program may be customized to the individual needs of a Client by choosing a suitable Third-Party Program and one or more Managers with minimum account sizes that meet the Client's needs.

#### *Minimum Annual Program Fee*

Some Third-Party Programs impose Minimum Annual Program Fees. Client will be advised of Minimum Annual Program Fees prior to entering to the Advisory Agreement or a Wrap Program Agreement.

Unless otherwise required according to the terms of a Sponsor Wrap Program Agreement, Minimum Annual Program Fees are expressed as annual amounts, but the Minimum Annual Program Fee is determined and assessed quarterly. For example, if an account has a \$2500 Minimum Annual Program Fee, it will be assessed a minimum fee of approximately \$625 every quarter. Therefore, if a Client has large asset inflows or outflows during the year, depending on the timing of such transactions, it is possible for the account to be assessed a minimum fee for a particular quarter even if the account's average balance for the entire year is above the minimum asset value threshold.

The Sponsor of Third-Party Programs, and the Third-Party Managers control the specific terms and conditions of a Third-Party Program with respect to minimum account size, and minimum annual fees (amount and calculation).

#### *Investment Restrictions*

In the RDP Portfolios and the Proprietary Portfolios (unless a Third-Party Manager is acting as portfolio manager), the Client may set reasonable restrictions on the investment of the Managed Assets, including the types of securities that should not be purchased, or if already held, securities that should not be sold.

Although AFP permits such reasonable restrictions in SMA Program Accounts, Third-Party Managers set their separate policies with respect to SMA Program Accounts.

### **Types of Clients**

AFP's Wrap Fee Program Clients are comprised of individuals, high net worth individuals and their families.



## Item 6 Portfolio Manager Selection & Evaluation

### Selection & Review of Portfolio Managers

#### Sponsors and Third-Party Programs

For the Sponsors, Third-Party Programs, Third-Party Managers and model portfolios ("Third-Party Models") we recommend or select in any of the programs in the Ausdal Wrap Fee Program, we rely largely on the research and performance information provided by the Sponsors or Third-Party Manager to evaluate and reach our decisions to recommend particular Sponsors, Third-Party Programs, or Third-Party Managers. With respect to Third-Party Programs, Sponsors conduct ongoing research with respect to the Third-Party Managers, and are responsible for identifying and selecting the Third-Party Managers that will participate in the Third-Party Program.

Each Sponsor has represented to us that it has implemented procedures similar to the following to review and select Third-Party Managers. We have not independently verified these procedures. Although each Sponsor's processes may differ in some aspects from the information below, the following is a general overview of the most commonly followed procedures:

Each Sponsor makes available to AFP and the Advisor research regarding Third-Party Managers, including investment discipline and approach. Sponsors generally follow proprietary screening and evaluation processes that focus on technical, quantitative, and qualitative analyses, as well as review of factors, such as a Manager's reputation and approach to investing. Many Sponsors have represented that they compare information they receive from Managers to other data, when available, from publicly available data sources to assist in assessing the accuracy of the information received from Managers; however, they do not warrant or guarantee the accuracy of any of the information provided to AFP. Each Sponsor maintains full discretionary authority to hire and fire the Managers. For discretionary accounts, AFP retains the discretionary authority to hire and fire any Third-Party Manager, and reallocate the Managed Assets, or terminate the Client's participation in a Third-Party Program.

We have not independently verified the processes or procedures described above, nor do we (or any third-party) audit, verify, or guarantee the accuracy, completeness, or methods of calculation of any performance or other information provided by a Sponsor or any Third-Party Manager. There can be no assurance that the performance or other information provided by a Sponsor or Third-Party Manager is or will be calculated on any uniform or consistent basis, or has been or will be calculated according to or based on any industry or other standards.

#### **Related Persons Acting As Portfolio Managers**

The only "related persons" who act as portfolio managers for Client Accounts are AFP's Advisors who serve as portfolio managers for RDP Wrap Program accounts, and AFP's supervised persons serving on the AFP Investment Committee or as Senior Managers. As such, refer to Supervised Persons Acting As Portfolio Managers (below) which provides information regarding supervised persons who act as portfolio managers.

#### **Supervised Persons Acting As Portfolio Managers**

AFP's Advisors act as portfolio managers in the RDP Program, and members of the Investment Committee and Senior Management assist in managing portfolios (or models) with respect to the Proprietary Program Accounts.

AFP acts as portfolio manager in a limited number of SMA Programs. In the case where AFP acts as portfolio manager, AFP will receive a portion of the SMA Advisory Fee attributable to the Third-Party Manager Fee for assets assigned to a model managed by AFP.

**Services Tailored to Individual Needs of Clients & Investment Restrictions**

Services provided through the Managed Programs are tailored to the individual needs of the Client. Clients participating in the Managed Programs will complete an account profile that collects the information about the Client and Managed Assets necessary to permit a model manager or the portfolio manager to develop (or identify) a suitable model portfolio for the Client and Managed Assets, including (to the extent relevant to the particular Client and Managed Account), information about the Client's personal and family situation, and investment experience, and the investment objective, tolerance for risk, income and liquidity needs, investment time horizon, and any other factors established by the Client for the Managed Assets and Managed Account (all the "Suitability Information").

For Third-Party Programs, Suitability Information is provided to the Sponsor, which is responsible for making it available to the Managers. We forward or update any changes in this information, as we receive it from the Client. Any such updated information is forwarded by the Advisor to the Sponsor, which is responsible for providing the updating information to the Manager.

Portfolio managers in the RDP Program and Proprietary Program (except Third-Party Managers) will invest and re-invest the Managed Assets according to the model portfolio's "target allocations" among stocks, bonds, mutual funds, exchange-traded funds (or other securities, as suitable for the Client and Managed Account) to reflect the specific asset classes, market sectors, geographic regions, or other dimensions comprising the Managed Account's model portfolio. The portfolio manager will manage the portfolio on a continuous basis according to the investment style and strategy adopted by the Advisor to achieve the Managed Account's goals and objectives, including such investment policies and guidelines, tolerances and allowances for "drift," under-weighting and over-weighting, and temporary or permanent adjustments to the target allocations, as the portfolio manager shall allow or adopt from time to time, in the portfolio manager's discretion.

For RDP Program Accounts, AFP's Investment Committee (or Senior Manager acting on its behalf) or other authorized portfolio manager will manage the portfolio to reflect the target allocations of the Managed Account's underlying model portfolio. Proprietary Program Managed Accounts that have designated Probabilities Portfolio models will be managed according to Signals received from PFM from time to time; provided, such Signals are not mandatory, and the portfolio manager may elect to disregard a Signal and take a different action, in the portfolio manager's discretion.

For 401k/403b accounts managed through the Pontera platform, the account is custodied at the custodian of the Plan's choice which may not be our recommended custodian. These assets are considered "held away" assets. Additionally, the investment selection is limited to the investments available through the related Plan.

In the SMA Program, the Third-Party Manager is primarily responsible for day-to-day portfolio management of the Third-Party Assets; AFP and Advisor are responsible for monitoring the portfolio for consistency with the target asset allocations and model portfolio, and to ensure the portfolio is rebalanced to continue to adhere to portfolio targets.

**Client Investment Restrictions**

In all Managed Accounts managed by AFP, an Advisor, or supervised person, AFP permits the Client to impose reasonable restrictions on the investments not to be purchased for the Managed Account, and for investments already held in the Managed Account, to impose reasonable restrictions on the investments not to be sold.

However, Clients should be aware that while AFP will permit reasonable restrictions on the investment of Managed Assets, not all Third-Party Managers accept investment restrictions with respect to management of the Third-Party Assets. Third-Party Managers establish separate and independent investment policies which take precedence over AFP's policies in the Third-Party Programs.

## **Portfolio Manager Disclosure**

### **Differences Managing Wrap Fee and Non-Wrap Fee Accounts**

The unique characteristics of a wrap program can create differences in how accounts are managed, depending on the specific facts and circumstances existing at the time. The following examples are representative of the ways in which the accounts may be managed different. However, the reader should consider that if the cost of brokerage commissions and other transaction costs continue to decline, wrap programs may begin to lose their price advantage over a traditional arrangement that charges separately for investment advice and brokerage.

### **Investment Strategy and Portfolio Composition Are Typically Different in Wrap and Non-Wrap Accounts**

- Wrap accounts tend to emphasize portfolio management strategies that adapt easily with higher levels of trading, on an ongoing basis, and select securities such as equities or options that are conducive to such a strategy.
- Sometimes, it may be less clear whether a particular portfolio or strategy is appropriate for a wrap fee account. It is less clear that wrap accounts will benefit an ETF asset allocation strategy. A number of factors must be weighed: how actively traded will the portfolio be traded? What is the commission per trade? What are the costs for the wrap fees versus the costs for the separate investment advice and brokerage costs? If the activity level and transaction costs are high enough, the wrap fee program might be beneficial.
- We would not manage a portfolio of fixed income securities (a "bond ladder") or other portfolio where a "buy & hold" strategy is expected. In that case, the account would not have sufficient transactions to benefit from the higher wrap fee.

### **Strategies Using Wrap and Tax-Favored Accounts May Offer Benefits *(where suitable for the Client)***

- Where suitable for the Client, use of an actively traded strategy in a tax-favored account may help Clients to benefit from their wrap program and avoid the potentially negative tax consequences such strategies can carry.

### **Receipt of Share of Wrap Fees**

AFP (through its supervised persons) provides portfolio management services to Clients in the RDP Program, Proprietary Portfolios and SMA Programs, and is compensated for such portfolio management services.

### **Performance-Based Fees**

AFP does not have any performance-based fee arrangements with Clients.

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

### **RDP Program & Proprietary Program**

For RDP Program accounts, each Advisor is permitted to adopt his or her preferred method of analysis in developing the portfolios and selecting the securities, some of which are discussed below.

For Proprietary Program accounts, the Investment Committee will typically rely on the Signals we receive from our third-party Signal Provider and our evaluation of available and appropriate mutual funds (or other Portfolio investments) in managing accounts. In addition to the investment recommendations provided by the Signal Provider, we conduct our own internal evaluation and selection of appropriate fund families and other investments, and allocation of Client account assets.

Proprietary Program investments may be selected or recommended on the basis of any or all of the following criteria: performance history; asset class and industry sector; the track record, management style and philosophy of the investment manager; the security's fee structure; the fund company's policies and limitations regarding excessive trading and penalties for early redemptions; the size of the investment in comparison to the size of the issuer; the fund company's trading restrictions, and our and our brokers' ability to place and execute orders and maintain records in an efficient manner, at reasonable costs. We may receive and rely on historic financial and other data from sources we deem to be reliable.

### **Methods of Analysis**

Following are typical methods of analysis that Advisors in any of our programs may use; however, Clients should inquire of their specific Advisor the particular method the Advisor intends to use in managing the Client's account. Each Advisor may adopt the method of analysis he or she deems appropriate.

**Fundamental Analysis:** Fundamental analysis involves analyzing a company's income statement, financial statements and health, its management and competitive advantages, and its competitors and markets. The fundamental analysis school of thought maintains that markets may misprice a security in the short run but that the "correct" price will eventually be reached. Profits can be made by trading the mispriced security and then waiting for the market to recognize its "mistake" and re-price the security. However, fundamental analysis does not attempt to anticipate market movements. This presents a potential risk, as the price of a security can move up or down along with the overall market regardless of the economic and financial factors considered in evaluating the stock. Therefore, unforeseen market conditions and company developments may result in significant price fluctuations that can lead to investor losses.

**Technical Analysis:** Technical analysis seeks to identify price patterns and trends in financial markets and attempt to exploit those patterns. Technical analysts follow and examine indicators such as price, volume, moving averages, and market sentiment.

**Mutual fund and ETF Analysis:** In analyzing mutual funds, we look at the experience and track record of the portfolio managers to determine if they have demonstrated the ability to invest successfully over periods of time and in different economic conditions. We also consider whether or not there is a significant overlap with the underlying investments held by other mutual funds. We monitor the mutual funds in an attempt to determine if they are continuing to follow their stated investment strategies. We also evaluate the fees of the portfolio managers and the internal expenses of the mutual funds to determine whether the Client is receiving adequate value for these fees and expenses.

A risk of our mutual fund and ETF analysis is that, as in all investments, past performance does not guarantee future results. A manager who has been successful may not be able to replicate that success in the future. In addition, as we do not control the underlying investments in a fund or ETF, managers of different funds in a Client's account may purchase the same security, increasing the risk to the Client if that security were to fall in value. There is also a risk that a manager may deviate from the stated investment mandate or strategy of the fund or ETF, which could make the fund or ETF less

suitable for the Client's portfolio. Moreover, we do not control the portfolio manager's daily business or compliance operations, and we may be unaware of the lack of internal controls necessary to prevent business, regulatory or reputational deficiencies.

### **Investment Strategies and Risks**

For the methods of analysis and strategies we use, we have identified the material risks we believe are involved. Of course, we cannot guarantee these are the only risks of investing through our programs.

When deciding whether to participate or to continue to participate in one of our programs, prospective or current Clients should feel comfortable that they have an understanding of how our programs work, the strategies we use, the risks of those strategies, the kinds of investments we use, the fees and expenses they will pay and the compensation we will receive, and the conflicts of interests that can potentially affect the advice we give.

We urge prospective Clients to ask questions if they do not understand any of these points.

**Securities-Based Loans or Lines of Credit ("SBLs")** - A SBL is a loan that allows investors to borrow money using securities held in their investment accounts as collateral. An SBL requires investors to make monthly interest-only payments, and the loan remains outstanding until it is repaid.

***Risk:*** If the value of the securities declines to an amount where it is no longer sufficient to support the line of credit, investors will receive a "maintenance call", which is a notification that the investor must post additional collateral or repay the loan within a specified period (typically two or three days). If the investor is unable to add additional collateral to the account or repay the loan with readily available cash, the firm can liquidate the securities satisfy the maintenance call, which may have potential unintended tax consequences and could have a significant impact on an investors long-term investment goals.

### **Recommendation of Particular Types of Securities**

We recommend various types of securities and we do not primarily recommend one particular type of security over another since each client has different needs and different tolerance for risk. Each type of security has its own unique set of risks associated with it and it would not be possible to list here all of the specific risks of every type of investment. Even within the same type of investment, risks can vary widely. However, in very general terms, the higher the anticipated return of an investment, the higher the risk of loss associated with the investment. A description of the types of securities we may recommend to you and some of their inherent risks are provided below.

### **Leveraged and Inverse Funds and ETFs**

#### **Risk of Leveraged Funds and ETFs**

As the name implies, leveraged funds and ETFs seek to provide leveraged returns at multiples of the underlying benchmark or index they track. Leveraged funds and ETFs generally seek to provide a multiple (i.e., 200%, 300%) of the **daily return of an index or other benchmark for a single day** excluding fees and other expenses. For this reason, some regulators have determined that these investments should not be held for more than a single day. Holding these leveraged ETFs for more than a single day could result in performance well below or above what they track, and, as such, carry more risk than products without leverage. In addition to using leverage, these funds and ETFs often use derivative products such as swaps, options, and futures contracts to accomplish their objectives. **The use of leverage as well as derivative instruments can cause leveraged funds and ETFs to be more volatile and subject to extreme price movements.**



### Inverse Funds and ETFs

Inverse mutual funds and ETFs, which are sometimes referred to as "short" funds and ETFs, seek to provide the opposite of the performance of the index or benchmark they track. Inverse funds and ETFs are often marketed as a way to profit from, or hedge exposure to, downward moving markets. Some inverse funds and ETFs also use leverage, such that they seek to achieve a return that is a multiple of the opposite performance of the underlying index or benchmark (i.e., -200%, -300%). In addition to leverage, these funds and ETFs may also use derivative instruments to accomplish their objectives. **As such, inverse funds and ETFs are volatile and provide the potential for significant losses.**

### Risks Associated with Leveraged and Inverse Funds

Risk associated with holding leveraged and inverse ETF's include, but are not limited to:

- **Use of Leverage and Derivative Instruments:** Many leveraged and inverse funds and ETFs use leverage and derivative instruments to achieve their stated investment objectives. As such, these funds and ETFs can be extremely volatile and carry a risk of substantial losses.
- **Most Leveraged and Inverse Funds and ETFs Seek Daily Target Returns:** Most leveraged and inverse funds and ETFs "reset" daily, meaning that they **are designed to achieve their stated objectives on a daily basis**. Due to the effect of compounding, the return for investors who invest for a period different than one trading day may vary significantly from the fund's stated goal as well as the target benchmark's performance. Thus, holding these investments longer than a single day may result in performance well below or above what they track, and, as such, carry more risk than products without leverage. This is especially true in very volatile markets or if a leveraged fund is tracking a very volatile underlying index.
- **Higher Operating Expenses and Fees:** Investors should be aware that leveraged funds and ETFs typically rebalance their portfolios on a daily basis in order to compensate for anticipated changes in overall market conditions. This rebalancing can result in frequent trading and increased portfolio turnover. Leveraged and inverse funds will therefore generally have higher operating expenses and investment management fees than other funds and ETFs.
- **Tax Treatment of Leveraged and Inverse Funds and ETFs May Vary:** In some cases, leveraged and inverse funds and ETFs may generate their returns through the use of derivative instruments. Because derivatives are taxed differently from equity or fixed-income securities, investors should be aware that these funds may not have the same tax efficiencies as other funds.

## **Non-Traded Investments**

### Real Estate Investment Trust (REITs)

A Real Estate Investment Trust (REIT) is a tax designation for a corporate entity which pools capital of many investors to purchase and manage real estate. Many REITs invest in income-producing properties in the office, industrial, retail, and residential real estate sectors. REITs are granted special tax considerations which can significantly reduce or eliminate corporate income taxes. In order to qualify as a REIT and for these special tax considerations, REITs are required by law to distribute 90% of their taxable income to investors. REITs can be traded on a public exchange like a stock, offered as a non-traded, public company or offered as a private placement. A Non-traded public company electing REIT tax status is registered with the Securities and Exchange Commission (SEC), but is not listed on an exchange. On the other hand a private company that elects REIT status is exempt from registration. As such, less information may be readily available to investors as with any private offering.

### Business Development Companies (BDCs)

A BDC is a form of publicly registered company in the United States that provides financing to small and mid-sized businesses. This form of company was created by Congress in 1980 as an amendment to the Investment Company Act of 1940. As a result, Congress created a new category of closed-end funds known as a business development company.

BDCs are closed-end funds that make investments in private, or in some cases public companies, typically with lower trading volumes, with investment objectives of providing for the possibility of capital appreciation and current income. BDCs are investment companies and answer to an independent board of directors. A BDC can trade on the market but can also be a public, non-traded company, just like a public, non-traded REIT. However, one difference is that unlike a REIT, a BDC cannot be a private offering.

BDCs, which essentially can be viewed as a hybrid between a traditional investment company and an operating company, represent a transparent portfolio of loans, similar in some sense to private equity or venture capital.

Publicly filing firms may elect to be regulated as a BDC if they meet certain requirements of the Investment Company Act. One such requirement is that a BDC must maintain at least 70% of its investments in eligible assets before investing in non-eligible assets. Eligible assets can include a domestic issuer that either does not have any class of securities listed on a national securities exchange, or has a class of equity securities listed on a national securities exchange, but has an aggregate market value of outstanding voting and non-voting common equity of less than \$250 million and, in each case, is not, with limited exceptions, a registered or unregistered investment company; or either:

- Does not have a class of securities that are "margin securities"
- Is controlled by a BDC and has an affiliated person of the BDC as a director
- Has total assets of not more than \$4 million and capital and surplus (shareholders' equity less retained earnings) of not less than \$2 million.

The majority of BDCs elect to be treated as a regulated investment company (RIC) for tax purposes. As a result, they must distribute at least 90% of their investment company taxable income, as defined by the Internal Revenue Code, to shareholders every year. A BDC can also receive tax exempt status on the 4% nondeductible federal excise tax if they:

- Distribute 98% of their ordinary income for each calendar year to their shareholders;
- Distribute 98% of their capital gain net income in a calendar year to their shareholders; and
- Distribute any income not distributed in prior years.

To continue to be treated as a RIC for tax purposes, BDCs must also:

- Continue to qualify as a BDC in accordance with the Investment Company Act of 1940;
- Derive at least 90% of their gross income from dividends, interest, payments on securities loans, gains from the sale of stock or other securities, or other income derived from their business of investing in these stocks or securities; and
- Satisfy quarterly RIC diversification requirements by not investing more than 5% of their assets in any single security and no more than 10% of a given security's total voting assets. Following these same requirements, they also may not invest more than 25% into businesses they control or businesses within the same industry.

### Non-Traded Closed End Funds

Like a public, non-traded REIT, a public non-traded closed end fund is not traded on the exchange. A closed end fund cannot elect REIT status and cannot be a private company. Like a BDC, a closed end fund is regulated under the investment act of 1940, but is unlike a BDC in terms of the type of investments it can hold. Basically, a closed end fund is a fund with a fixed number of shares, as opposed to an open end fund that creates and redeems shares on a daily basis.

### Non-Traded Public Companies

Other companies that are not organized as a REIT, BDC or closed end fund may be organized as a non-traded company, similar to a public company like Apple, except that the company does not trade on an exchange. This structure is sometimes used for offerings that are not real estate, such as specific sector offerings like clean energy.

### **Risks Associated with Non-Traded Company Investments**

The risks of non-traded REITs, BDCs, non-traded closed end funds and non-traded public companies are varied and significant. Because they are not exchange-traded investments, they often lack a developed secondary market, making them illiquid investments. This could limit or restrict a Client's ability to dispose of such investments in a timely manner and/or at an advantageous price. Consequently, a Client should exercise caution to avoid over-concentration of their assets in these types of illiquid investments.

### **Valuation and Advisory Fees Associated with Non-Traded Company Investments**

Ausdal may advise certain qualified Clients to invest in non-traded REITs, BDCs, non-traded closed end funds or non-traded public companies. In order for these offerings to be purchased in an Ausdal advisory account, the distributor must provide advisory-class pricing for their products through a custodian. Generally this means that the distributor allows purchases at a price that "waives" the sales charge, or "load," therefore allowing Ausdal to include the product in the quarterly or monthly asset management fee billing established for the Client's account.

The price of a non-listed security on your account statement provided by a custodian could potentially reflect the original purchase price and not any price or value from a secondary market, a repurchase offered by the sponsor, or the book value. The actual value of the investment on a secondary market or through a repurchase by a sponsor could potentially be significantly higher or lower than the original purchase price contained on the account statement provided by the custodian. The asset management fee for non-traded investments included in your program may be based upon the current valuation set by the product sponsor as reflected on the custodian's account statement. Due to the fact that non-traded investments are illiquid, the value is not easily or readily ascertainable or reported. As a result, the value shown on the account statement provided by the custodian is the most reliable method for determining the present value of the investment.

### Variable Annuities Risk

A variable annuity is a form of insurance where the seller or issuer (typically an insurance company) makes a series of future payments to a buyer (annuitant) in exchange for the immediate payment of a lump sum (single-payment annuity) or a series of regular payments (regular-payment annuity). The payment stream from the issuer to the annuitant has an unknown duration based principally upon the date of death of the annuitant. At this point, the contract will terminate and the remainder of the funds accumulated forfeited unless there are other annuitants or beneficiaries in the contract. Annuities can be purchased to provide an income during retirement. Unlike fixed annuities that make payments in fixed amounts or in amounts that increase by a fixed percentage, variable annuities, pay amounts that vary according to the performance of a specified set of investments, typically bond and equity mutual funds. Many variable annuities typically impose asset-based sales charges or surrender charges for withdrawals within a specified period. Variable annuities may impose a variety of fees and expenses, in



addition to sales and surrender charges, such as mortality and expense risk charges; administrative fees; underlying fund expenses; and charges for special features, all of which can reduce the return. Earnings in a variable annuity do not provide all the tax advantages of 401(k)s and other before-tax retirement plans. Once the investor starts withdrawing money from their variable annuity, earnings are taxed at the ordinary income rate, rather than at the lower capital gains rates applied to other non-tax-deferred vehicles which are held for more than one year. Proceeds of most variable annuities do not receive a "step-up" in cost basis when the owner dies like stocks, bonds and mutual funds do. Some variable annuities offer "bonus credits." These are usually not free. In order to fund them, insurance companies typically impose mortality and expense charges and surrender charge periods. In an exchange of an existing annuity for a new annuity (so-called 1035 exchanges), the new variable annuity may have a lower contract value and a smaller death benefit; may impose new surrender charges or increase the period of time for which the surrender charge applies; may have higher annual fees; and provide another commission for the broker.

#### **Fee Based Annuities Risk**

Fee based annuities are products meant for registered investment advisers, who are paid a flat, annual advisory fee, often based on assets under management, rather than a commission for each product sale. Fee based annuities do not come with a sales load to compensate the adviser. Fee based annuities include an annual advisory fee in the sub-accounts in addition to the annuity's fees. If the advisory fee is paid out of certain annuity products, specifically, nonqualified annuities, the fee payment may be considered a taxable event. Additionally, pulling an advisory fee from the annuity could have other adverse effects, if the product has any type of insurance rider, causing a dilution or nullifying those benefits. Factors such as the advisory fee, expected life of the annuity and if the annuity is actively or passively managed should be considered when selecting a fee-based annuity. Other benefits, such as upfront bonuses, generally only come with commissioned annuities. To get a full understanding of the costs, features and benefits of an annuity, you should closely read your annuity contract. The insurance features of annuity contracts are backed by the full faith and credit of the underlying insurance company.

#### **Risk of Loss and Other Risks**

The risks described below apply to all of our Programs.

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

Investing in securities involves risk of loss that Clients should be prepared to bear. Securities are not guaranteed and Clients may lose money on their investments. We ask that Clients work with us to be sure we understand their willingness and financial ability to bear the risks of their current investments and the investments we recommend for their account.

##### **Interest Rate Risk**

Interest rates may go up, causing the value of debt securities held by an account (or by any mutual fund, money market fund, or other fixed income security owned by the account) to decline. This is known as interest rate risk, which may be greater for securities with longer maturities. Again, this is a known risk factor for the Programs, depending on specific allocations.

##### **Credit Risk**

The issuer (or other obligor) of a security owned by the account (or by any mutual fund, money market fund, or variable product owned by the account) may fail to pay principal or interest, or otherwise default, or may be perceived to be less creditworthy, or the security's credit rating may be downgraded, or the credit quality or value of any underlying asset may decline. This is known as credit risk. This risk is greater for high yield securities than for securities of higher credit quality. Accounts participating in the Programs may invest in high yield securities.

### Prepayment Risk

During periods of declining interest rates, the issuer of a security may exercise its option to prepay principal earlier than scheduled, forcing the account (or any mutual fund or money market fund) to reinvest in lower yielding securities. This is known as call or prepayment risk.

### Extension Risk

During periods of rising interest rates, the average life of certain types of securities may be extended because of slower than expected principal payments. This may lock in a below market interest rate, increase the security's duration (a calculation of a security's future payments designed to measure sensitivity to interest rate changes), increase the security's sensitivity to interest rate changes and reduce the value of the security. This is known as extension risk.

### Liquidity Risk

From time to time, as a result of economic, market, or issuer-specific reasons, one or more investments held by the account may become difficult to sell at a favorable price, and in certain adverse markets or economic conditions, may become difficult to sell at any price. The causes of a loss of liquidity may not be related to any specific adverse changes in the business of a particular issuer. These examples of liquidity risk.

### Risk of holding cash balances for an extended periods of time

Some strategies may seek to improve long-term risk-adjusted performance by holding substantial cash balances for extended periods of time. However, because the account will continue to be charged Advisory Fees on the cash balances, and holding cash balances in this manner can ultimately reduce portfolio returns, especially in times when money market rates are extremely low.

### Risk of Delays In Accounts

For a variety of reasons, there may be periods of time when we will not be able to trade an account. For example, accounts may require several weeks after the Advisory Agreement is signed by all parties before we will be able to enter trades with the Custodian (and such period may be lengthened as a result of delays by Client or third parties in transferring assets to the Custodian). Similarly, accounts that are transferred between Custodians, or whose registrations are changed, or that change Portfolios may experience periods during which we will not be able to trade the account. Further, there will likely be periods when we are not able to trade an account as a result of the Firm's administration, review, portfolio management, trade execution, or other handling of that account or the account for other Clients.

During periods when we are not able to trade the account, we may receive a Signal that we may not be able to effect. As a result, the account may incur losses that would not have been incurred, or may miss profits or opportunities that would have been realized, if the account had been traded.

Following such periods, we will endeavor to trade the account and effect transactions so that the account reflects the Portfolio designated for the account, but such transactions may result in immediate losses for the account. We assume no responsibility for losses or missed profits or opportunities resulting from: the account not being traded during any such period; engaging in transactions so that an account reflects the Portfolio; or from implementing any instruction from the Client.

Advisor does not guarantee that transactions will occur within any minimum period of time following receipt of a Signal or that transactions for any account will occur at the same time as transactions for other accounts. We will attempt, when reasonably able, to move all Clients promptly following receipt of a Signal, but Clients should expect that delays will occur, transactions for particular accounts may be delayed until after transactions for other accounts have been effected, and losses may be incurred or profits or opportunities may be missed, all at the risk (and potential benefit) of the Client. Although

with respect to any particular Signal or transaction, certain accounts may not be treated the same as other accounts, we will implement procedures to avoid particular accounts being treated unfairly over reasonable periods of time.

#### *Insolvency of Brokers and Others*

Clients will be subject to the risk of failure of the brokerage firms that execute their trades, the clearing firms that such brokers use, and the clearinghouses of which such clearing firms are members.

Although we believe the institutions we recommend have sufficient capital, there is no assurance this will continue to be the case.

#### *Margin Transactions*

Although not expected to be used frequently, there may be occasions when the Client's account will use a margin account offered by the Custodian to borrow sufficient funds to purchase a security for an account. This typically happens if sufficient cash is not available in the account to purchase the security and it is not advantageous to sell other investments. The use of margin carries risks that Clients should understand. We do not expect to use significant amounts of margin or other leverage in our strategies; however, certain types of transactions may or must be executed through a "margin account."

In volatile markets, security prices can fall very quickly. If the net value of a Client's account (less the amount the Client owes to the broker) falls below a certain level, the broker will issue a "margin call" and the Client will be required to sell the security (and other positions) or add more cash to the account. You could lose more money than you originally invested. Additionally, the Client must pay interest on the margin balance owed to the broker until it is repaid in full. The amount of margin interest will diminish the Client's profits and in some cases could cause net losses in the Client's account.

#### *Allocation of Investment Opportunities*

At times, there will be limited supply of an investment and we will be required to decide which accounts will be able to purchase the investment. Although we do not receive allocations of initial public offerings of stock (IPOs), this would be an example of a situation where demand for an investment opportunity could far outweigh supply. When supply is not sufficient to meet demand, we will be required to decide how which account will participate, and to what extent, in the allocation of the amount of the security we are able to acquire.

In determining which portfolios or accounts will participate or receive an allocation of a limited investment opportunity, we may consider and give greater weight to, among other factors, any one or more of the following factors: asset class or type of security; identity and industry sector of the issuer; market and economic conditions; quantity of the security available to us; available cash, liquidity needs, size, and investment objective of the eligible accounts; effective, current, or target yields, returns, spreads, coupon, duration, or credit quality; volatility (as measured by standard deviation, by comparison against a benchmark or index, or by other measures selected by us); actual, estimated, or target rates of return targets; liquidity, tax position, and investment restrictions. Such factors may be calculated, derived, or estimated by us or any third party or data source we believe is reasonably reliable.

#### *Risk of Trade Errors*

When effecting trades to implement the investment decisions we make on your behalf, we may make an error while placing a trade. If we make an error, we will bear the costs of correcting the trade. Trade errors that result in a benefit to the client (for example, failed to sell a security in a timely manner, security price subsequently increases and then the position is sold, resulting in more gain for the client) are generally left in the client's account. For errors that cannot be moved out of a Client's account and create a loss, the Client will be credited the dollar amount needed to make the Client

whole. Where multiple transactions are involved, gains and losses resulting from the trade correction process may be netted in determining the dollar amount to make the Client whole. However, AFP works with several different custodians that handle trade errors in different ways according to their own policies and procedures. Therefore, trade errors that result in a gain can be handled one or more of the following ways:

- Trade errors that result in a gain will be credited to the client's account;
- Trade errors that result in a gain are donated to charity;
- Trade errors resulting in a gains that are considered nominal (i.e. \$100 or less) are written off by the custodian; and
- Trade errors that occur on the same day or during the same quarter may be netted, resulting in gains offsetting losses.

Offsetting of trade error gains presents a conflict of interest as AFP has an incentive to transact to produce trade errors that result in a gain to offset the trade errors that result in a loss. However, all net gains are ultimately donated to charity and not retained by AFP. "Soft dollars" may not be used to pay for correcting trade errors. The handling of trade errors is one of the qualitative factors that is reviewed by AFP as part of the best execution review.

#### *Risks of Market, Economic, Political, or Regulatory Events*

As a general matter, the values of account assets may fall due to changes in general market conditions, such as real or perceived adverse economic, political, or regulatory conditions, inflation, changes in interest or currency rates or adverse investor sentiment. Adverse market conditions may be prolonged and may not have the same impact on all types of securities. The values of securities may fall due to factors affecting a particular issuer or the securities market as a whole. The risk to portfolios in the programs will depend on the specific portfolio allocation.

#### **Voting Client Securities**

The Client retains responsibility for voting proxies on all securities owned in their Advisory Account(s). We will not vote proxies, exercise rights, make elections, or take other such actions with respect to securities held for accounts we manage. When completing the account application to open the Advisory Account(s), the Client will select whether to receive proxy materials directly or if they should be forwarded to AFP. AFP will discard proxy materials received for Clients' accounts and will not provide votes. In the absence of a written request, we will discard proxy and related materials.

Clients may obtain proxy materials by written request to the account's Custodian. For information about how to obtain proxy materials from a Custodian, Clients may contact us by email to [ausdal@ausdal.com](mailto:ausdal@ausdal.com), or by mail to the address on the front of this Brochure. However, we do not provide advice about the issues raised by proxy solicitations or other requests for corporate actions.

#### **Class Action Lawsuits**

Similarly, we do not advise or exercise rights, make elections, or take other actions with respect to legal proceedings involving companies whose securities are or were held for a Client's account, such as asserting claims or voting in bankruptcy or reorganization proceedings, or filing "proofs of claim" in class action litigation.

If desired, a Client may instruct us in writing to forward to the Client or a third party any materials we receive pertaining to such matters. Upon our receipt of such written instructions, we will use reasonable efforts to forward such materials in a timely manner. In the absence of a written request, we will discard such materials. Written instructions should be sent by email to [ausdal@ausdal.com](mailto:ausdal@ausdal.com), or by mail to the address shown on the cover page of this Brochure.

The Sponsors or Managers of Third-Party Programs may have different policies with respect to the voting of proxies. These policies will be stated in the Wrap Fee Brochure of the Sponsor or Manager delivered to the Client.

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

Clients participating in the Managed Programs will complete an account profile that provides the portfolio manager sufficient information about the Client and Managed Assets to permit the portfolio manager to develop (or identify) a model portfolio that is suitable for the Client and Managed Assets to be managed through the selected Managed Program, including (to the extent relevant to the particular Client and Managed Account), information about the Client's personal and family situation, and investment experience, and the investment objective, tolerance for risk, income and liquidity needs, investment time horizon, and any other factors established by the Client for the Managed Assets and Managed Account (all the "Suitability Information").

At the opening of the account, the Advisor collects the Suitability Information, which includes information about the Client's personal situation, and the Managed Account's investment objective, tolerance for risk, and investment time horizon, among other characteristics. For the Third-Party Programs, this information is provided to the Sponsor, which is responsible for making it available to the Managers who act as portfolio managers. We forward or update any changes in this information, as we receive it from the Client.

Some Sponsors provide Clients with quarterly (or other) reports and remind the Client to contact the Advisor upon any change of the Client's or the Managed Account's information. Sponsors provide any updated information to the Clients.

Clients are responsible for notifying Advisor or AFP regarding changes to their personal situation or in the account's financial situation or investment objectives, liquidity needs, or risk tolerance, or if the Client wishes to impose or modify any reasonable account restrictions. Any such updated information is forwarded by the Advisor to the Sponsor, which is responsible for providing the updating information to the Manager.

### **Confidentiality of Client Information**

Protecting the confidentiality of our customers' nonpublic information is paramount for the Firm. As such, we have instituted policies and procedures to ensure that nonpublic customer information is kept confidential. We do not disclose nonpublic personal information about our Clients or former Clients to any non-affiliated third parties, except as provided pursuant to our privacy policies or as required by or permitted by law.

In the course of servicing a Client's account, the Firm may share Client information with service providers, such as Sponsors, Managers, Custodians, transfer agents, accountants, and attorneys. The Firm will share information about the Client, the Client's account, and account activity.

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

The Client's primary contact with respect to the RDP Program and Proprietary Program will be the Client's Advisor. The Advisor will be available to answer questions about administration of the account and its investments. A member of the Investment Committee (or Senior Management, in the absence of the Investment Committee) will be available for reasonable consultation. For orderly processing, requests for consultations should be made through the Client's Advisor.



With respect to Third-Party Programs, the Advisor is also the Client's primary contact. If a Client has questions the Advisor cannot answer, Clients are encouraged to contact the Sponsor of their Program directly, at the address or telephone number shown in the Third-Party Program documentation. Knowledgeable personnel are generally available to answer Client questions.

However, should the Client request a direct consultation, staff of the Sponsor and Manager personnel who are knowledgeable about the Client's Managed Account and its management will be made reasonably available for consultation. For orderly processing, requests for consultations should be made through the Client's Advisor.

## **Item 9 Additional Information**

### **Disclosure & Industry Information**

#### **Disciplinary Information**

We are required to disclose in Item 9 information about legal or disciplinary events involving the Firm or our management that may be material to evaluation of our advisory business or the integrity of our management.

On June 27, 2011, Ausdal Financial Partners, Inc. discovered that certain e-mail addresses were not being retained by AFP's then third-party email vendor. AFP promptly contacted the e-mail vendor to inquire why e-mails were not being retained. Ausdal learned that the e-mail addresses at issue had not been properly set up.

AFP promptly conducted a firm-wide undertaking to ensure that all of its representatives and associated person's emails would be captured by its existing e-mail vendor's system. On a going-forward basis, AFP was also able to recapture a number of the e-mails for certain of the AFP representatives and/or associated personnel that had not been captured and retained. This was made possible because these certain individuals had maintained emails on their personal hard drives. AFP self-reported this issue to FINRA, in writing, on July 15, 2011. AFP changed e-mail vendors as of October 28, 2011. All AFP representatives and associated persons were required to use the new e-mail vendor's platform as of January 1, 2012. AFP representatives were advised of this requirement at the AFP annual compliance meetings held on October 20, 2011 and November 10, 2011. AFP representatives work directly with AFP's new e-mail vendor to ensure that the representatives' AFP email address is set up properly and is being captured and retained by the new e-mail vendor's system. AFP, upon receiving notice from the e-mail vendor that the AFP representative's e-mail address has been set up properly and e-mails are being captured and retained, then conducts its own testing to verify that all representative e-mails are, in fact, being captured and retained.

FINRA findings - Section 17(a) of the Securities Exchange Act of 1934 and Rule 17a-4, FINRA Rule 2010, NASD Rules 2110, 3110; the firm failed to retain some e-mail correspondence related to its business as a broker-dealer for over two years. The firm began using a new third-party provider to retain its e-mails and when the provider implemented the firm's e-mail retention system, it established e-mail addresses for the firm's personnel on its server. After the initial set-up, the firm was responsible for establishing new e-mail addresses on the server for several newly registered representatives and associated personnel and therefore failed to retain the e-mails of these representatives and associated personnel. The firm was able to retrieve e-mails for some of these representatives and associated personnel after it discovered that the e-mail addresses had not been established on the server. The firm allowed its registered representatives to use their personal e-mail addresses, as long as they forwarded securities related e-mails to any of the e-mail review boxes established by the firm. However, for a period, the e-mails sent to one of these e-mail review boxes were not retained. These

e-mails were deleted on a weekly basis because the review box would become full and would not accept any additional e-mails. Without admitting or denying the findings, the firm consented to the sanctions and to the entry of findings and therefore the firm was censured and fined \$25,000.

## **Other Financial Industry Activities & Affiliations**

### *Registration as a Broker-Dealer and Insurance Agency*

Our firm is also registered as a broker-dealer and is a member of the Financial Industry Regulatory Authority and the Securities Investor Protection Corporation. The principal business of AFP is that of a securities broker-dealer. AFP's management employees (who are also registered as Advisors) and virtually all Advisors are registered as broker-dealer registered representatives of AFP ("Representatives"), and are authorized to sell securities. Our firm is also licensed as an insurance agency. Many Representatives are also licensed to sell life, health, and annuity products and are appointed as agents ("Agents") by various life insurance companies; AFP is a party to standard agency contracts with life insurance companies which govern compensation from insurance products and renewals. Please see below for additional information related to these conflicts of interest.

### *Registered Representatives and Insurance Agents*

Clients are under no obligation, contractual or otherwise, to purchase investment or insurance products through AFP, or a Representative or Agent, or otherwise to implement or act upon AFP's or a Representative's or Agent's recommendations. Clients can generally purchase similar investment or insurance products or services through other brokers, dealers, insurance agencies, or other financial intermediaries that are not affiliated with AFP. Clients may purchase mutual funds directly from mutual fund companies. The products may be available on a low or "no-load" basis. We also recommend "no-load" mutual fund share classes; however, many of the mutual funds we recommend carry 12b-1 Fees or other internal expenses higher than a Client is able to obtain through direct purchases from a mutual fund company or from other financial services firms. If a Client chooses to purchase investments directly from a mutual fund company or through another intermediary, the Client will not receive the benefit of the services we provide in determining which investment products or services may be appropriate in view of the Client's financial situation, investment objectives, risk tolerance, and liquidity needs.

AFP has adopted the following to address the conflicts of interest with respect to selection or recommendation of investment or insurance products outside of Managed Account(s):

- we disclose the existence of the conflict of interest that arises from the incentive AFP and a Representative (or Agent) have to earn additional compensation from recommending the purchase of securities or insurance products in addition to the Advisory Fees, Adviser Platform Fees, and share of Sponsor Program Fees AFP receives;
- we disclose to Clients they have the right to decide whether or not to act on such recommendations, and if they choose to act on such recommendations, they have the right to purchase such products through AFP and Representative (or Agent), or through another broker-dealer, insurance agency, financial institution, or professional of their choosing, which may charge less (or more) for such products;
- we request Clients provide and update material information regarding their personal and financial situation, and the investment objective, tolerance for risk, liquidity needs, and investment time horizon for the Managed Account(s), and where possible, overall household financial situation, and we conduct regular reviews of account investments;
- we require that our Advisors and Representatives seek prior approval of outside employment activity so that we may detect conflicts of interests and ensure such conflicts are properly addressed;
- we periodically ask Advisors and Representatives to certify information regarding their outside

- employment activities; and
- we educate our Advisors and Representatives regarding the responsibilities of a fiduciary, including the need for having a reasonable and independent basis for the investment advice provided to Clients.

#### Mutual Fund Share Classes

We also recommend "no-load" mutual fund share classes; however, many of the mutual funds we recommend carry 12b-1 Fees or other internal expenses higher than a Client is able to obtain through direct purchases from a mutual fund company or from other financial services firms. If a Client chooses to purchase investments directly from a mutual fund company or through another intermediary, the Client will not receive the benefit of the services we provide in determining which investment products or services may be appropriate in view of the Client's financial situation, investment objectives, risk tolerance, and liquidity needs.

For additional information, please refer to Item 4, Mutual Fund Share Classes.

#### Cash Management Fees and Expenses

The Bank Deposit Sweep Program is a core account investment vehicle used to hold cash balances awaiting reinvestment. The cash balance in a brokerage account at Pershing, Schwab or TD Ameritrade will be automatically deposited or "swept" into an interest-bearing Bank Deposit Sweep Program account.

An investment in a FDIC-Insured Deposit Program is protected by FDIC insurance and therefore not protected by Securities Investor Protection Corporation (SIPC). An investment in a money market mutual fund is not insured or guaranteed by the Federal Deposit Insured Corporation or any other government agency but is protected by Securities Investor Protection Corporation (SIPC). Although the funds seek to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investment in the fund.

For additional information on any fund, including investment objectives, risks, charges, and expenses, please consult the fund's prospectus. Contact your financial organization for the fund prospectus and read it carefully before investing.

See Cash Management Fees and Expenses under Item 4 for additional information regarding compensation and our conflicts of interest.

#### Registrations with Registered Investment Advisers

Certain persons providing investment advice on behalf of our firm are dually registered as investment adviser representatives with our firm and an unaffiliated registered investment adviser. In their separate investment adviser representative capacities, they are providing sub-advisory services to AFP through model portfolio management. Advisory clients maintain accounts through AFP and not directly with the third-party registered investment adviser. Dually registered investment adviser representatives will not earn fee-based compensation from both firms with respect to the same account. New clients will be asked to sign an addendum to the advisory contract when AFP engages a third-party registered investment adviser as a sub-advisor for your account. You are under no obligation to utilize the services of the third-party registered investment adviser through our firm.

#### Other Financial Related Business Activities - Private Placements

Certain persons providing investment advice on behalf of our firm, including Tim Beldner<sup>1</sup>, are principals of Mint Hill Capital Holding Company, L.L.C., a limited liability company organized under the laws of North Carolina. Mint Hill Capital Holding Company, L.L.C. serves as the Manager to Mint Hill Capital 1, L.L.C. ("the Fund"), a pooled investment vehicle offered only by private placement



memorandum and other offering documents to certain sophisticated investors meeting certain minimum financial requirements as summarized in the offering documents. AFP serves as the placement agent for the Fund. Clients and employees of AFP will be solicited to invest in the Fund. This activity presents a conflict of interest because our firm has a financial incentive to recommend the Fund to qualified investors. Our associated persons, in their separate capacities as principals of Mint Hill Capital Holding Company, L.L.C., have a financial incentive, including but not limited to, management fees, developer fees, and carried interest, to recommend the Fund to you. Additionally, please refer to the conflicts of interest referenced above and below in this section, when AFP acts as a placement agent and AFP Representatives solicit investments in the Fund.

Investments in the Fund will be held in a brokerage account and are not permitted in advisory accounts. The fees charged by the Fund are separate and apart from our advisory fees. Persons affiliated with our firm have made an investment in the Fund and have an incentive to recommend the Fund over other investments. In an effort to mitigate the conflicts of interest related to investing in the Fund, we are disclosing the material conflicts to you. You are under no obligation to invest in the Fund or any other securities recommended by AFP, AFP Representatives or any person affiliated with our firm.

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*<sup>1</sup>Tim Beldner is a principal of Mint Hill Capital Holding Company, L.L.C. Mr. Beldner and Mint Hill are shareholders and minority owners of AFP. In addition, Mr. Beldner is also a, registered as an investment adviser representative and registered representative of AFP, in addition to several other outside business activities as disclosed in Mr. Beldner's ADV 2B Brochure. Mr. Beldner and advisers at Mint Hill have an additional financial incentive to recommend products and services provided by or through AFP and/or other businesses where they have an ownership interest, therefore, presenting a conflict of interest to clients. Mr. Beldner and Mint Hill have a fiduciary duty to act in Clients best interest and are subject to the oversight and supervision of AFP's compliance program. Please refer to Mr. Beldner's ADV Part 2B Brochure for additional information.*

### **Ausdal Financial Partners - Strategic Alliance Program**

**Strategic Alliance Program:** The Strategic Alliance Program is a joint educational and marketing program involving various financial service providers, some of which are investment advisers, while others are investment companies, insurance companies, and other financial services firms. The Strategic Alliance Program offers participants exposure to AFP Advisors and Representatives via educational sessions and other meetings. Expenses associated with sponsorship of these events are funded through a fixed fee paid by partner firms. In any given year there are between 10 and 15 "Strategic Alliance" partners participating in the program with contributions ranging from \$5,000 to \$15,000 per firm. During the course of the year, Strategic Alliance Partner may be allowed:

- Business contact information for all AFP Advisors and Representatives
- Speaking Time at one AFP Quarterly Educational Meeting
- Participation in AFP's National Sales Conference (exhibition space and speaking time)
- Booth space at various other AFP functions

In general, these partners are selected based on the popularity of the products and services with AFP's Advisors and Representatives. In some cases, new "partners" are selected for inclusion based on AFP's assessment of the proposed partner's potential value to AFP, its Advisors and Representatives, and its Clients. Strategic Alliance Partners are not the sole participants in Ausdal meetings and events. Many other products and services are included in Ausdal meetings and events irrespective of financial support.

Although other product sponsors are granted access to AFP's meetings, as a result of AFP's economic interest in continuing to receive the significant sponsorship payments by the Strategic Partners through the Strategic Alliance Program, a conflict of interest exists where AFP has an incentive to provide priority access to its Advisors and Representatives to the Strategic Partners based on the economic benefits to be received rather than based solely on the investment needs and benefits to the Client.

AFP has adopted the following steps to address the conflicts of interest with respect to recommendations related to the Strategic Alliance Program:

- we disclose the conflict to our Clients in this Brochure;
- we conduct appropriate ongoing due diligence to ensure we have a reasonable basis for recommending Strategic Partners generally, and individually with respect to each Client;
- we disclose to Clients they have the right to decide whether to accept or reject any recommendation of a Strategic Partner, and if they choose to act on such recommendation, whether to implement a recommendation to purchase any investment, insurance or other product or service by or through AFP and an Advisor, or to select another broker-dealer, insurance agency, or financial institution of their choosing, which may charge less (or more) for such products;
- we collect and maintain adequate information about our Clients and their accounts, including their financial circumstances, investment objectives, and risk tolerance, and we conduct regular account reviews to confirm investment selections or recommendations are suitable;
- we periodically review overall holdings to identify significant disparities indicative of unusual treatment; and we educate our Advisors and employees regarding our fiduciary responsibilities, regardless of fee arrangements; and
- we educate our employees regarding the responsibilities of a fiduciary, including the need to have a reasonable and independent basis for the investment advice provided to Clients.

The inclusion of a firm as a Strategic Alliance Partner does not necessarily mean their product or service will benefit any Client and may serve only to benefit AFP and its advisors.

## **Code of Ethics, Review of Accounts, Client Referrals, Financial Information**

### **Code of Ethics and Personal Trading**

We have adopted a Code of Ethics expressing our commitment to ethical conduct. Our Code of Ethics describes our fiduciary responsibilities to our Clients, and our procedures in supervising the personal securities transactions of our supervised persons who have access to information regarding Client recommendations or transactions ("access persons").

A copy of our Code of Ethics is available to our Clients and prospective Clients. You may request our Code of Ethics by email at [ausdal@ausdal.com](mailto:ausdal@ausdal.com) or by calling us at (800) 722-8732.

We owe a duty of loyalty, fairness, and good faith towards our Clients and have an obligation to adhere not only to the specific provisions of the Code of Ethics but also to the general principles that guide the Code.

Our Code of Ethics includes policies and procedures for the review of our access persons' quarterly securities transactions reports as well as initial and annual securities holdings reports that must be submitted by the Firm's access persons. Among other things, our Code of Ethics also requires the prior approval of any acquisition of securities in a limited offering (e.g., private placement) or an initial public offering. Our Code also provides for oversight, enforcement, and recordkeeping provisions.

Our Chief Compliance Officer may grant exceptions to certain provisions contained in the Code where we reasonably believe the interests of our Clients will not be materially adversely affected or compromised. Doubts arising in connection with personal securities trading should be resolved in favor of the Client even at the personal expense of our employees.

Our Code of Ethics prohibits the misuse of material non-public information. While we do not believe that we have any particular access to material non-public information regarding publicly traded companies that would be subject to misuse, all employees are reminded that any such information may not be used in a personal or professional capacity.

The Firm and its principals, officers, affiliates, employees and Advisors may act as investment adviser for others, may manage funds or capital for others, may have, make and maintain investments in its or their own names, or may serve as an officer, director, consultant, partner or stockholder of one or more investment partnerships or other businesses, subject to compliance with the Firm's Code of Ethics. In doing so, the Firm or such persons may give advice, take action, and refrain from taking action, any of which may differ from advice given, action taken or not, or the timing of any action, for any particular Client.

Neither the Firm nor any Advisor has any obligation to purchase or sell, or to recommend for purchase or sale, any security which the Firm or any principal, officer, employee or Advisor purchases or sells for his own account or for the accounts of other Clients, unless such conduct is a fiduciary obligation.

#### **Participation or Interest in Client Transactions - Principal Transactions**

We direct trades to one or more broker dealers that acts as principal, buys securities from (or sells securities to) our clients in regard to certain transactions. These transactions present a conflict of interest as both our employees as well as the broker dealer's earn transactional fees (mark-ups or mark-downs) from such transactions and has an incentive to execute client orders in this manner. We address this conflict in the following manner:

1. We will only trade as principal when we believe the transaction is in the best interest of our clients;
2. We believe the transaction fulfills our duty of best execution with respect to the particular transaction; and
3. Prior to the completion of such a trade we will make disclosures to our effected clients regarding:
  - a. the price of the security;
  - b. other best quoted prices;
  - c. any commission, mark-up, or mark-down; and
  - d. obtain our client's consent.

#### **Recommendations Involving Our Financial Interests**

##### *Amplify Holdings, LLC*

AFP has signed a best efforts selling agreement to participate in the private placement offering to accredited investors of membership interests ("Interests") in Amplify Holdings, LLC ("Amplify"), a business that is distributing shares of multiple Exchange-Traded Funds ("ETFs"). Amplify was formerly considered a "related person" with respect to AFP because the companies were under "common control" due to a former member of AFP's board of directors serving on Amplify's board of directors. However, common control has ended and Amplify is no longer AFP's related person.

It is expected AFP Representatives will continue to solicit AFP advisory Clients to purchase the Interests. Any such purchases will be made through such Clients' brokerage or other accounts which AFP is not managing as advisory accounts. The Interests will not be held as assets in any advisory account and AFP will not purchase the Interests in any advisory account through the exercise of discretion. AFP will earn selling compensation as a broker-dealer from the sale of the Interests, and the selling Representative will share in such compensation for selling the Interests, even if the investment is not successful for investors.

In addition, Representatives of AFP will be authorized to sell to their advisory Clients shares of Amplify's ETFs, which will result in financial benefit to principals and Representatives of AFP in cases where the principals and/or Representative personally have acquired interests in Amplify. Consequently, even though we have adopted procedures to ensure that no Client invests advisory assets, and that all investments are suitable for the investor, it is possible that our judgment could be materially affected by the prospective of the financial gain, such that AFP and the Representative will recommend Clients purchase the Amplify ETFs based on the economic benefits to be received rather than based solely on the Client's investment needs.

#### Mint Hill Capital 1, L.L.C.

AFP has signed a best efforts selling agreement to participate in the private placement offering to accredited investors of membership interests (referred to as "Units") in Mint Hill Capital 1, LLC ("the Fund"). As described above, certain associated persons serve as the manager to the Fund through an outside business activity, and therefore, have additional financial incentives to recommend Units of the Fund. Please refer to the *Other Financial Related Business Activities - Private Placements* subsection above for additional information related to conflicts of interest related to the Manager of the Fund.

It is expected AFP Representatives will continue to solicit AFP advisory Clients to purchase the Fund's Units. Any such purchases will be made through such Clients' brokerage or other accounts which AFP is not managing as advisory accounts. The Units will not be held as assets in any advisory account and AFP will not purchase the Units in any advisory account through the exercise of discretion. AFP will earn selling compensation as a broker-dealer from the sale of the Units, and the selling Representative will share in such compensation for selling Units, even if the investment is not successful for investors.

In addition, Representatives of AFP will be authorized to sell to their advisory Clients Units of the Fund, which will result in financial benefit to principals and Representatives of AFP in cases where the principals and/or Representative personally have acquired Units in the Fund. Consequently, even though we have adopted procedures to ensure that no Client invests advisory assets, and that all investments are suitable for the investor, it is possible that our judgment could be materially affected by the prospective of the financial gain, such that AFP and the Representative will recommend Clients purchase the Fund based on the economic benefits to be received rather than based solely on the Client's investment needs.

#### **Investments in Securities We Recommend to Clients**

Individuals associated with the Firm may buy or sell securities for their personal accounts identical to or different from those recommended to Clients. It is the policy of the Firm that no person employed by the Firm shall prefer his or her own interest to that of an advisory Client or make personal investment decisions based on the investment decisions of Clients. Subject to the Code of Ethics, the Firm and its employees are permitted to trade for their own accounts side-by-side and in block transactions with the Firm's Clients in the same securities, and at the same time. We have adopted the procedures described below to address the actual and potential conflicts of interest raised by our policies.

## **Investments around Time of Client Transactions**

Subject to the procedures in this section, the Firm and its employees are permitted to trade for their own accounts side-by-side with Clients in the same securities at or around the same time as Clients on the same trading day, and are permitted to aggregate trades for their proprietary accounts with trades for Client accounts. The Firm, its employees, and its affiliates may buy or sell securities for their personal accounts identical to the securities recommended to Clients.

In addition to the procedures described above, we have adopted the procedures described below to address these conflicts of interest or our policies described above:

- the Firm prohibits employees from knowingly purchasing or selling securities (other than mutual funds or other securities that are not treated as "reportable securities") immediately prior to Client transactions, in order to prevent employees from benefiting from transactions placed on behalf of advisory accounts;
- no director, officer, or employee of the Firm shall buy or sell securities for their personal portfolio(s) where their decision is substantially derived, in whole or in part, by reason of his or her employment, unless the information is also available to the investing public on reasonable inquiry;
- no director, officer, or employee of the Firm shall knowingly prefer his or her own interest to that of an advisory Client;
- the Firm maintains records of securities held by the Firm and its access persons. These holdings are reviewed on a regular basis by the Investment Committee;
- the Firm emphasizes the unrestricted right of the Client to decline to implement any advice it has rendered (except where the Firm has entered an order pursuant to its exercise of discretionary authority);
- the Firm requires all employees to act in accordance with all applicable Federal and State laws and regulations governing registered investment advisory practices; and
- any individual not in observance of the above may be subject to discipline.

## **Review of Accounts**

RDP Program account investments are reviewed continuously by the Advisor assigned to the account. The Advisor also conducts periodic evaluations of the portfolio for consistency with investment objectives and restrictions, and with the account's stated objectives and strategy.

Proprietary Program model Portfolios are reviewed continuously by the Investment Committee (or a senior manager of the Firm). Individual accounts are reviewed periodically by the Advisor for consistency with investment objectives and restrictions, and with the account's stated objectives and strategy.

Third-Party Managers are responsible for managing the Managed Accounts on a continuous and regular basis. The Advisor is responsible for monitoring the Managed Account on an ongoing basis for consistency with the account's stated objectives and strategy, and target allocations.

In general, more frequent reviews or monitoring can be triggered by significant market or economic factors, or if the Client notifies the Advisor of changes in the Client's financial situation, large withdrawals or significant deposits, or changes in the account investment objectives, liquidity needs, or risk tolerance. The Investment Committee (or a manager of the Firm) will be responsible for overseeing all reviews; and the Advisor shall be responsible for monitoring Third-Party Managers.



## Client Reports

Clients will receive account statements directly from their Custodian on at least a quarterly basis showing all transactions in their account during the reporting period. Clients should review the Custodian's statements carefully. AFP does not provide reports regarding Client accounts, and never provides account statements detailing account debits, credits, receipts, deliveries, and positions as part of its advisory services. Some Advisors may agree with their Clients to provide reports (but not statements) to the Client. If a Client receives a report from an Advisor which refers to the value of an asset also shown on a Custodian's statement, we urge the Client to compare the information with the statement they receive from the Custodian and contact us immediately if any discrepancies are found.

## Client Referrals & Compensation

Below is a summary of the arrangements where AFP receives an economic benefit from third-parties for providing investment advice or advisory services to a Client: Some of the discussion below refers to information found in AFP's Form ADV Part 2A Brochure, which can be found on the SEC's website shown on the front of this Brochure, [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov), and searching AFP's CRD number: 7995.

## Compensation from Custodians

**Brokerage-Related Fees:** For Client accounts maintained at Pershing, AFP has established and will charge its advisory clients AFP brokerage-related fees, which include, but is not limited to, the following items:

- **Trade Handling Charges** - currently, clients are charged up to \$6 per transactions;
- **Ticket Charges** - currently, clients are charged up to \$30 per transaction, plus a per share charge for stocks/ETFs (typically, few cents per share, with minimum of \$0.50);
- **Annual IRA Fees** - currently, clients are charged up to \$35 per year for standard IRAs (more for Simple, 401k, etc.); and
- **Transfer Fees** - currently, clients are charged \$100 for transfers of IRAs and non-IRA accounts.

AFP's broker-dealer has established the above as "Brokerage-Related Fees". Operationally, Pershing will collect these fees on behalf of AFP, deduct AFP's cost to Pershing for such services and pay the remainder of these AFP fees to AFP. As such, these brokerage-related fees are NOT a pass-through of what Pershing charges AFP for these services. Rather, **these are AFP fees** for brokerage-related services, which AFP has established after taking into consideration certain administrative, operational and mailing costs associated with accounts held at Pershing. The AFP Brokerage-Related fees are AFP fees, charged by AFP's broker-dealer to the advisory clients for brokerage services in connection with their advisory accounts. These Brokerage-Related Fees includes a reasonable profit (sometimes referred to as a "mark-up") for AFP. AFP believes these charges are in-line with what other firms in the industry charge for such brokerage-related services. As set forth in AFP's advisory agreements with its clients, and as disclosed in this Brochure, these brokerage fees are in addition to what the clients pay for advisory services. The amount AFP receives and the basis for such calculation varies by fee, and is subject to change without notice. AFP's share can vary widely, depending on the amount of the client transaction, and factors such as whether the fees are for retirement, IRA or individual accounts. These Brokerage-Related Fees are just one of many costs associated with the work done by AFP's broker-dealer to service the advisory account.

Annual IRA and transfer fees are AFP fees charged in an effort to offset administrative, operational and mailing costs associated with accounts held at Pershing. AFP believes these charges are in-line with other firms in the industry.



**FundVest Account Compensation:** AFP has entered into an arrangement with Pershing whereby Pershing pays AFP a monthly fee (up to 10 basis points annually, or \$0.10 per every \$100.00 annually) based on the value of Client assets invested in the Pershing FundVest funds, which includes approximately 3000 funds from approximately 200 fund families. Investments can be made in the FundVest funds without paying a load or a trading commission. These funds are called "No Transaction Fee" ("NTF") funds. Funds participating in FundVest pay Pershing fees to be on the FundVest list, and Pershing shares this compensation with AFP. Consequently, AFP has an incentive to recommend Client assets invest in the FundVest Funds based on increasing the compensation Pershing shares with AFP, rather than based on the Clients' investment needs or interests in purchasing mutual funds at the lowest costs. Clients should be aware that AFP does not share the FundVest Account Compensation with the Advisors, and thus this compensation does not influence the Advisors' decision to select the FundVest funds. Additionally, AFP's selection of the FundVest funds continues to be subject to the obligation to seek best execution in the purchase of securities for the Client's account.

**Asset-Based Sales Charges and Service Fees (12b-1 Fees):** For Clients with Managed Accounts maintained with Pershing, if AFP purchases shares of a mutual fund share class that carries 12b-1 Fees, AFP's automated surveillance system will detect the investment in a share class more expensive than a share class for which the account is able and willing to invest, and will rebates the 12b-1 Fee within a reasonable period to the Client (except in individually-negotiated circumstances, where expressly agreed by Client pursuant to the terms of the Advisory Agreement). For other Custodians, AFP has implemented electronic and manual procedures to monitor purchases of mutual fund shares to detect share purchases that do not meet AFP's obligation to seek best execution with respect to the purchase of mutual fund shares.

**Share of Margin Interest & Interest on Short Sale Transactions.** AFP receives a payment from Pershing of a portion of the margin interest charged on a Client's margin debit balance, and a share of the interest on short sale transactions. These forms of compensation create a conflict of interest to recommend or encourage Client accounts at Pershing, and further, to encourage recommendations to use margin and engage in short sale transactions, based on the compensation AFP will receive, rather than the suitability of the use of margin and short sale transactions for the Client.

**Compensation from Sponsors of Third-Party Manager Programs & Ausdal's Programs**

AFP receives from Sponsors of Third-Party Manager Programs the following:

- **Proprietary Program:** In the Proprietary Program, AFP recommends the Probabilities Fund Management, LLC ("PFM"), an SEC-registered investment adviser, to assist in the development of model portfolios and selection of securities to be used for the Growth Sleeve of the Client's portfolio, and to provide signals AFP may use to identify when to buy and sell securities for Client accounts. AFP has the following material conflicts of interest with respect to its engagement of PFM:
- **SMA Program - Sponsor Program Fees Shared with AFP:** As disclosed in Item 4, certain Sponsors share a portion of their Program Fees with AFP (typically, not more than 15 basis points based on the Client's account value). The payment provides an incentive to recommend the Sponsor and its Third-Party Program based on the share of Program Fees received rather than based solely on the Client's investment needs or interest in advisory services at reasonable cost.
- **Ausdal Wrap Program:** Clients interested in a Wrap Program (where a single fee (or fees) is charged for investment advice and brokerage services) should request and review the Ausdal Wrap Fee Brochure. The Wrap Fee Brochure addresses the direct and indirect economic

benefits Ausdal receives from recommending the Third-Party Managers AFP recommends to Clients participating in the Wrap Program.

- **Access to Portfolio Modeling Tools:** Certain Sponsors of Third-Party Manager Programs in the SMA Program and Wrap Program provide AFP and its Advisors access to portfolio modeling tools and research, which tools and research AFP and the Advisors would not have access to if AFP and its Advisors did not refer Clients to the Sponsor and Third-Party Programs. Consequently, to the extent AFP and the Advisors value the continued use of such tools and research without having to pay the costs from their separate funds, AFP and the Advisors have an incentive to recommend the Third-Party Programs to Clients based on their economic interests in continuing to receive such tools and research without payment from their separate funds, rather than based on the Client's investment needs.

### **Compensation & Marketing Support from Non-Traded Product Sponsors & Strategic Alliance Program**

- **Payments from Non-Traded Securities - Sponsorship & Marketing Fees:** With respect to Client investments in non-traded REITs, non-traded BDCs, non-traded closed end funds, and non-traded public companies, AFP receives non-advisory compensation from the sponsors of such securities, typically ranging from .08% to 1.00% of the Client's investment. Additionally, the sponsors pay or reimburse the costs of AFP's quarterly and annual meetings.
- **Strategic Alliance Program - Sponsorship Fees:** Strategic Alliance Program is a joint educational and marketing program involving various financial service providers, some of which are investment advisers, while others are investment companies, insurance companies, and other financial services firms. The Program offers participants exposure to AFP Advisors and Representatives via educational sessions and other meetings. Expenses associated with sponsorship of these events are funded through a fixed Sponsorship Fee paid by partner firms. In any given year there are between 10 and 15 "Strategic Alliance" partners participating in the program with contributions ranging from \$5,000 to \$15,000 per firm.

### **Other Custodian Compensation:**

In addition to the compensation identified above, the following forms of compensation are received by AFP:

- **Client "Out-Going Transfer Fees":** Pershing and TD Ameritrade reimburse new clients for the transfer fees they incur when transferring their account to the new custodian. Although AFP does not receive any payment directly, these payments help facilitate the client's transfers, and improve client goodwill, and represent an indirect economic benefit to AFP and its Advisors.
- **Credit for First-Year Orion Bill:** TD Ameritrade provides a benefit for use of TD Ameritrade as clearing firm equal to a credit of AFP's bill for use of the Orion advisor technology for the first year an individual customer account is opened with TD Ameritrade.

### **Benefits of Institutional Manager Platforms:**

In addition to the other economic benefits it receives from third parties, AFP's clearing firm, Pershing, and its other two principal custodians, Schwab and TD Ameritrade, each provide many services through their institutional adviser programs on which AFP relies in offering advisory services to its Clients

- **Pershing, LLC:** As described above, AFP's clearing firm, Pershing, provides many services through its institutional adviser program on which we depend in offering advisory services to our

Clients in an efficient and cost-effective manner. AFP recommends Pershing to Clients for custody and brokerage services. There is no direct link between AFP's participation in the Pershing's institutional program and the investment advice it gives to its Clients, although AFP receives economic benefits through its participation in the program that are typically not available to Pershing's retail investors. Refer to [Part 2A, Item 12] for a complete description of all of the useful benefits and services that Pershing provides to AFP in connection with its institutional advisor program.

- **Institutional Custodial Platforms of Schwab and TD Ameritrade:** As discussed above, AFP participates in the institutional advisor programs offered by Schwab and TD Ameritrade. Along with Pershing, AFP recommends these firms to Clients for custody and brokerage services. There is no direct link between AFP's participation in such programs and the investment advice it gives to its Clients, although AFP receives economic benefits through its participation in these programs not typically available to retail investors or other institutional advisors.

### **Other Forms of Compensation**

Although not necessarily related to the services provided by AFP, certain vendors, product providers, distributors and others provide non-monetary compensation to AFP by providing training, education and publications that are designed to further AFP's employees' skills and knowledge. Some vendors occasionally provide AFP with gifts, meals and entertainment of reasonable value, consistent with industry rules and regulations. AFP will, in accordance with its compliance policies, accept lodging or travel expenses from third parties or third-party payment of its conference fee costs or fees to attain professional designations. Certain companies also pay AFP compensation for marketing, access to AFP Representatives, and for other purposes separate from and in addition to commission paid for the sale of their products as disclosed in the prospectus and/or disclosures of each company.

- **Pontera Platform:** AFP receives compensation from unaffiliated registered investment advisers for administrative services and access to the Pontera trading platform. The Pontera platform allows trading and management of held away accounts. The unaffiliated registered investment advisers have an incentive to utilize AFP's platform for access to Pontera. AFP is disclosing this additional revenue stream in an effort to meet our fiduciary obligations of full and fair disclosure.

### **Referral Arrangements with Third Parties**

We refer Clients to third-party advisers, as described above in connection with the SMA Program. AFP does not have any agreements with Promoters for compensated or non-compensated endorsements.

### **Disclosure of Certain Financial Conditions**

SEC-registered investment advisers who have custody or discretion over Client funds or securities, or who require prepayment of fees exceeding \$1,200 six months or more in advance must disclose any financial condition reasonably likely to impair their ability to meet contractual commitments to Clients. AFP has never been the subject of a bankruptcy petition.

### **Rollover Recommendations**

Effective December 20, 2021 (or such later date as the US Department of Labor ("DOL") Field Assistance Bulletin 2018-02 ceases to be in effect), for purposes of complying with the DOL's Prohibited Transaction Exemption 2020-02 ("PTE 2020-02") where applicable, we are providing the following acknowledgment to you. When we provide investment advice to you regarding your retirement plan account or individual retirement account, we are fiduciaries within the meaning of Title I of the Employee Retirement Income Security Act and/or the Internal Revenue Code, as applicable, which are laws governing retirement accounts. The way we make money creates some conflicts with your interests, so we operate under a special rule that requires us to act in your best interest and not put our interest ahead of yours. Under this special rule's provisions, we must:

- Meet a professional standard of care when making investment recommendations (give prudent advice);
- Never put our financial interests ahead of yours when making recommendations (give loyal advice);
- Avoid misleading statements about conflicts of interest, fees, and investments;
- Follow policies and procedures designed to ensure that we give advice that is in your best interest;
- Charge no more than is reasonable for our services; and
- Give you basic information about conflicts of interest.

We benefit financially from the rollover of your assets from a retirement account to an account that we manage or provide investment advice, because the assets increase our assets under management and our advisory fees. In contrast, we receive less or no compensation if assets remain in the current plan or are rolled over to another Company plan in which you may participate.

### **AGREEMENT TO RECEIVE MANAGER BROCHURES**

Clients have the right to receive the disclosure document, Form ADV Part 2A ("Manager Brochure") for any Manager who manages their Third-Party Program account. A Manager Brochure provides information similar to the types of information in this Brochure, such as:

- the types of services the Manager provides,
- any important conflicts of interest the Manager has with its Clients and how the Manager deals with those conflicts,
- the types of strategies the Manager follows, its methods of analysis, and the types of investments it generally uses,
- whether it manages other accounts or funds that might receive preferential treatment in the allocation of investment opportunities,
- any prior disciplinary history of the Manager or its management personnel,
- how it votes proxies and deals with any conflicts of interest that arise when voting proxies,
- the basic terms of its Code of Ethics, and its general trading practices, among many other matters.

The Manager's Brochure is an important document that Clients are encouraged to read.

Separately, you should be aware that at any time, you may receive a copy of a Manager's Brochure through the SEC's public Investment Adviser Public Disclosure website simply by searching the Manager's name and scrolling down the menu to find the link to the Manager's last filed "Part 2 Brochure": [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

### **ELECTRONIC DELIVERY**

Upon written Client authorization, AFP may deliver any required regulatory notices and disclosures or correspondence via electronic mail or via AFP's Internet website. AFP shall have completed all delivery requirements upon the forwarding of such document, disclosure, notice or correspondence to the Client's last provided email address (or upon advising the Client via email that such document is available on AFP's website). Client may, at any time, notify AFP in writing that it does not wish to receive electronic communications and instead wishes to receive paper communications for no additional cost.