

Wrap Program Brochure  
Form ADV Appendix 1



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This wrap fee program brochure (“Brochure”) provides information about the business practices and qualifications of Sterling Financial Group, Inc. Please contact us at (626) 440-9192 or email at [contact@sterlingfg.com](mailto:contact@sterlingfg.com) to discuss any questions you have regarding this Brochure or our services. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any State Securities Authority.

Additional information about Sterling Financial Group, Inc. is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Please note that the use of the term “registered investment adviser” and description of Sterling Financial Group, Inc., and/or our associates as “registered” does not imply a certain level of skill or training. You are encouraged to review this Brochure for more information on the qualifications of our firm, our associates who advise you and our employees.

**ITEM 1: COVER PAGE**

Please refer to previous page.

**ITEM 2: MATERIAL CHANGES**

Sterling Financial Group, Inc. is required to notify clients of any information that has changed since the last annual update of the Firm Brochure (“Brochure”) that may be important to them. Clients can request a full copy of our Brochure or contact us with any questions that they may have about the changes.

Since the last annual amendment filed on 03/30/2022, the following changes have been made:

- Our firm now provides Retirement Plan Consulting Services to clients. For more information regarding this new service, please see Item 4 and Item 5 of our Form ADV Part 2A.
- Our firm has clarified in Item 5 of our Form ADV Part 2A, the Other Types of Fees & Expenses clients may incur as a result of SFG’s management. Please see Item 5 of our Form ADV 2A for more information.
- Our firm has clarified in Item 4 of this Brochure, that our firm will adjust billing to account for deposits and withdrawals made throughout the quarter.
- Our firm has clarified in Item 6 of this Brochure, that we utilize a combination of in-house portfolio managers and third-party money managers to assist in the investment management of our client’s assets. Please see Item 6 of this Brochure for more information.
- Our firm no longer provides brokerage services to our clients as registered representatives of LPL Financial. However, our firm still recommends the custodial services of LPL Financial.
- Our firm no longer recommends insurance products to our clients for a commission, and such, we have amended Item 10 of our Firm Brochure to disclose that our firm no longer conducts any other financial industry activities outside of providing investment advice to clients.

Our prospective clients are strongly encouraged to read this Brochure in its entirety prior to engaging the Firm for any advisory services.

Pursuant to federal regulation, Sterling Financial Group will ensure that clients receive a summary of any materials changes to this Brochure within 120 days of the close of the Firm’s fiscal year-end. Additionally, as the Firm experiences material changes in the future, we will send you a summary of our “Material Changes” under separate cover. For more information about the firm, please contact us at (626) 441-9192.

Additional information about the Firm and its investment adviser representative is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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## **Item 4 - Services, Fees, and Compensation**

### **Services:**

Sterling Financial Group offers a “wrap fee” program (“Wrap Program”) as described in this Brochure that provides investment strategies that are tailored to our client’s specific needs that provides the client with advisory and brokerage execution services plus account reporting and custodial services, for one all-inclusive fee. Such services are normally offered on a continuous basis. Management services are provided on a discretionary or non-discretionary basis. Each portfolio is designed to meet the particular investment goal, which we determine to be suitable to the client’s circumstances. We select from a wide array of investment vehicles, such as stocks, options, fixed income securities, mutual funds, real estate investment trusts, exchange traded funds, and in certain situations we can choose hedge funds, high yield debt, managed futures, and other more complex or specialized instruments. Although the selection of investments is at the discretion of the advisor, each client can place reasonable restrictions on the types of investments to be held in the portfolio. Once the appropriate portfolio has been determined, we monitor the investments regularly, conduct account reviews periodically and rebalance the portfolio, if necessary, based upon the client’s individual needs, stated goals and objectives. Sterling Financial Group takes a calm and measured approach to managing client’s assets that is supported by the belief that over the long term, a consistent strategy that is meticulously followed will provide the best opportunity for the best return. Clients can choose to engage Sterling Financial Group on a non-discretionary basis. Changes in non-discretionary accounts will only be implemented with the client’s authorization.

Client assets in the Wrap Program managed by Sterling Financial Group are held in accounts at a qualified custodian, who will provide clearing, custody, and other brokerage services for client accounts. At the present time Sterling Financial Group has custodial relationships with LPL Financial and Charles Schwab & Co. Inc. While Sterling Financial Group can assist the client in completing the custodian’s paperwork, the client is ultimately responsible for providing all the necessary information to establish the account. Clients will retain all rights of ownership in the accounts, including the right to withdraw securities and cash, vote proxies, and receive transaction confirmations.

On an accommodation basis, Sterling Financial Group can also agree to handle certain accounts on a non-managed basis. In such cases, Sterling Financial Group will not be responsible for providing management on either a discretionary or non-discretionary basis.

### **Fees and Compensation:**

Clients pay Sterling Financial Group a single annual advisory fee for asset management services and the execution of transactions within the Wrap Program. Clients do not pay brokerage commissions, markups, or transaction charges for execution of transactions in addition to the advisory fee.

Fees are paid quarterly in advance and billed on a pro-rated annualized basis. Fees are calculated as a percentage of the market value of all assets on the last trading day of the month of the previous calendar quarter, including cash holdings. Assets deposited or withdrawn by the client between billing cycles will be assessed an investment advisory fee based only upon the number of days the assets are in the account. Although we believe our advisory fees are competitive, clients should be aware that the fee can be higher than the fee charged by other investment advisors for similar services. Adjustments to billing will be made for deposits and withdrawals made throughout the quarter. Our fees are generally not negotiable (but we expect to reduce or waive all or a portion of advisory fees for certain clients, friends, or family in our sole discretion). Below is the schedule of fees for our asset management services:

<u>Assets Under Management</u>	<u>Annual Fee Percentage:</u>
\$0 to \$999,999	0.85 - 1.75%
\$1,000,000 to \$5,000,000	0.75 - 1.50%
\$5,000,000 to \$10,000,000	0.55 - 1.00%
\$10,000,000 to \$20,000,000	0.45 - 0.75%
Over \$20,000,000	0.20 - 0.50%

In general, the minimum investment for new clients is \$500,000 subject to a minimum account fee, which is generally \$6,250, however Sterling Financial Group, in its sole discretion can waive such minimums in limited circumstances, such as the referral of a client's family member, or professional referrals.

Although clients do not pay transaction charges in the Wrap Program account, clients should be aware that the Firm typically pays an asset-based fee to the account custodian to cover the cost of transactions placed in client accounts. Since the Firm absorbs certain transaction costs in Wrap Program accounts, the Firm has a financial incentive not to place transaction orders in those accounts since doing so increases its transaction costs. Thus, a conflict of interest exists whereby an incentive exists to place trades less frequently in a wrap fee arrangement.

The advisory fee is shared between Sterling Financial Group and its advisors. Sterling Financial Group takes its responsibility to clients seriously and will recommend a custodian to clients only if it believes it is in the client's best interest.

Clients do not pay a transaction charge in the Wrap Program; however, clients should be aware that Sterling Financial Group pays the account's custodian for trading costs. With respect to accounts at held LPL and certain accounts held at Schwab, the Firm pays a single asset-based fee to cover the cost of transactions placed in client account. With respect to certain other accounts held at Schwab, the Firm pays a transaction charge to the custodian for each transaction in the account. The transaction charges vary based on the type of transaction (e.g., mutual fund, equity, or fixed income security). The decision of whether to set up the account for asset-based pricing or per transaction pricing is made by Sterling Financial Group at the time a client establishes an account with the custodian. The Firm attempts to select the least expensive option and considers such factors as estimated transactions per year and the estimated cost per transaction. When the Firm pays transaction charges rather than an asset-based fee, there is a conflict of interest because there is a financial incentive for Sterling Financial Group to avoid transactions in the client's account, or to place such trades less frequently. Clients should also understand that the amount of the transaction charges paid by the Firm is a factor that the Firm considers when deciding which securities to select, how frequently to place transactions, and the level of advisory fee to charge the client. Although the Firm believes its fees are reasonable, clients should be aware that lower fees for comparable services, or alternative services, can be available from other sources.

To hire Sterling Financial Group to provide management services, clients will be asked to enter into a written investment advisory agreement with the Firm. This agreement will set forth the terms and conditions of the relationship, including the amount of the investment advisory fee.

In the event, the advisory agreement is terminated in writing to Sterling Financial Group before the end of the quarterly period, clients are entitled to a pro-rated refund of any pre-paid quarterly advisory fee based on the number of days remaining in the quarter after the termination date.

## **Other Types of Fees and Charges:**

Client accounts will incur additional fees and charges from parties other than the Firm as noted below. These additional fees and charges are separate and in addition to the advisory fee paid to Sterling Financial Group.

### **Our firm does not share in any portion of these third-party fees.**

The custodian and broker-dealer providing brokerage and execution services on client accounts will impose certain fees and charges. The custodian notifies clients of these charges at account opening and generally makes available a list of these fees and charges on its website. The custodian will deduct these fees and charges directly from the client's account.

Some of these fees and charges are described below:

- If a client account invests in mutual funds or exchange-traded funds ("ETFs"), please note that as a shareholder of the fund, a management fee will apply, in addition to paying us an advisory fee for managing the assets. As many of the funds available can be purchased directly, the second layer of fees could be avoided by not using Sterling Financial Group's management services and by the client making their own fund investment decisions.
- The fees not included in the advisory fee for our wrap services are charges imposed directly by a mutual fund, index fund, or exchange-traded fund which shall be disclosed in the fund's prospectus (i.e., fund management fees and other fund expenses), fees for trades executed away from the custodian, mark-ups and mark-downs, spreads paid to market makers, wire transfer fees and other fees and taxes on brokerage accounts and securities transactions.
- Certain mutual funds impose fees and charges such as contingent deferred sales charges, early redemption fees and charges for frequent trading. These charges will apply if a client transfers into or purchases such a fund in the account.
- Although only no-load and load-waived mutual funds can be purchased in a client's account, clients should understand that some mutual funds pay asset-based sales charges or service fees to the custodian.
- If a client holds a variable annuity as part of an account, there are mortality, expense, and administrative charges. The annuity Sponsor can also impose fees for additional contract riders, and charges for excessive transfers within a calendar year.
- Certain retirement accounts - IRA and qualified retirement plan fees.
- Certain trust accounts - Administrative servicing fees for trust accounts.
- Unit investment trusts ("UIT") - creation and development fees or similar fees imposed by UIT sponsors.
- Alternative investments - Hedge fund and managed future investment management fees, managed futures investor servicing fees, and business development company fees.

- Sweep money market funds and cash balances other fees based on average daily deposit balances.
- Other charges required by law and imposed by the executing broker/dealer or custodian.

Further information regarding fees assessed by a mutual fund or variable annuity is available in the appropriate prospectus, which is available upon request from Sterling Financial Group or from the product sponsor directly.

### **Other Important Considerations:**

- The advisory fee is an ongoing wrap fee for investment advisory services, the execution of transactions and other administrative and custodial services. The fee under the Wrap Program can cost the client more than purchasing the program services separately, outside of the Wrap Program. Factors that bear upon the cost of the account in relation to the cost of the same services purchased separately include the type and size of the account, historical and or expected size or number of trades for the account, and number and range of supplementary advisory and client-related services provided to the client.
- The advisory fee can also cost the client more than if assets were held in a traditional brokerage account. In a brokerage account, a client is charged a commission for each transaction, and the representative has no duty to provide ongoing advice with respect to the account. If the client plans to follow a buy and hold strategy for the account or does not wish to purchase ongoing investment advice or management services, the client should consider opening a commission-based brokerage account rather than a wrap fee program account.
- Sterling Financial Group is recommending the advisory account to the client and receives compensation as a result of the client's participation. This compensation includes the advisory fee described above and can also include other compensation, such as bonuses, awards or other things of value offered by our custodians to Sterling Financial Group or its advisors. The amount of this compensation can be more or less than what the Firm would receive if the client participated in other advisory programs, programs of other investment advisors or paid separately for investment advice, brokerage, and other client services. Therefore, Sterling Financial Group has a financial incentive to recommend the Wrap Program account over other programs and services. Sterling Financial Group takes its responsibilities seriously and will only recommend that clients utilize the Wrap Program if the Firm believes it is appropriate and, in the client's, best interest.
- Most investment products available to be purchased in the client account can be purchased by clients outside of the account, through broker-dealers or other investment firms not affiliated with Sterling Financial Group.

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

Sterling Financial Group typically offers its Wrap Program to Individuals, High-Net-Worth Individuals, Trusts, Estates, Charitable Organizations, Pension and Profit-Sharing Plans, as well as Corporations, Limited Liability Companies and/or other types of businesses. In general, the minimum investment for new clients is \$500,000 subject to a minimum annual fee of \$6,250, however Sterling Financial Group, in its sole discretion can waive such minimums in limited circumstances, such as the referral of a client's family member, or professional referrals.

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

Our firm utilizes our in-house portfolio managers as well as a selection of outside portfolio managers. In-house accounts are managed by licensed investment adviser representatives (“IARs”) of our firm. Prior to becoming licensed with our firm, each IARs industry experience, licensure, outside business activities, client complaints (if any), disciplinary or regulatory history (if any) and financial well-being will be reviewed. Each IAR will then have a Form U4 and ADV Part 2B on file with our firm. Outside portfolio managers, either individually or firm-wide, are selected based on past performance, investment philosophy, market outlook, experience of associated portfolio managers and executive team, disciplinary, legal and regulatory histories of the firm and its associates, and/or whether compliance procedures are in place to address at a minimum, insider trading, conflicts of interest, and/or anti-money laundering.

For client accounts where LPL Financial and/or Schwab serves as the custodian, LPL and/or Schwab performs certain administrative services for Sterling Financial Group, including generation of quarterly performance reports for client accounts. Sterling Financial Group relies on the accuracy of the reporting generated by LPL and/or Schwab. Clients will receive a quarterly report, which provides performance information on a time weighted basis. The performance reports are intended to inform clients as to how their investments have performed for a period, both on an absolute basis and compared to leading investment indices. For client accounts where Charles Schwab & Co. serves as the custodian, clients will receive quarterly performance reports. Clients are encouraged to review periodic statements received from Charles Schwab & Co. to determine the performance of the account.

### **Methods of Analysis and Investment Strategies:**

The Firm is committed to helping clients achieve their financial goals and objectives. After developing a thorough understanding of a client’s risk tolerance and their short and long-term goals, they are assigned an appropriate investment objective and then a customized investment portfolio.

We then choose an appropriate asset allocation is then chosen to realize a client’s desired rate of return with an acceptable amount of risk. We utilize our experience to ensure client accounts are properly diversified and not subject to the volatility of a single sector, industry, or asset class. We monitor our clients’ managed accounts and rebalance as necessary, to ensure that they are aligned with their account objective. It is important to keep in mind that there is no specific approach to investing that guarantees success or positive returns; investing in securities involves risk of loss that clients should be prepared to bear.

We generally use the following types of investments: stocks, options, fixed income securities, mutual funds (including asset allocation funds, index funds, international funds, emerging market funds, real estate funds, high yield bond funds and funds that short the market), real estate investment trusts, exchange traded funds (including commodity funds, precious metal funds and agricultural funds), and in certain situations hedge funds, high yield debt, managed futures, and other more complex or specialized instruments can be used. The investments selected for a particular client’s account will depend upon the investment objective, level of risk tolerance, sensitivity to taxes, and other factors.

When selecting mutual funds, ETFs, and third-party money managers, we examine the experience, expertise, investment philosophies, and past performance of the manager. We do this to determine if that manager has successfully demonstrated an ability to invest over a meaningful period of time and in different economic or market conditions. For money managers, we monitor the manager’s underlying holdings, strategies, concentrations, and leverage as part of our overall periodic risk assessment.



There are risks associated with investing in securities. The following highlights some of the risks associated with the types of investments that can be purchased for your account:

- Investing in any stock, bond, or any other investment such as a mutual fund, ETF or Separate Account involves Issuer Risk. Securities held in client's portfolio can experience positive or negative fluctuations including a decline in value because of changes in the financial condition of, or events affecting, the issuers of securities.
- Investing in any company, stock bond or any other investment such as a mutual fund, ETF or Separate Account involves Management Risk. Our firm's opinion of the intrinsic worth of a company or security can be incorrect and not reflect current market expectations, and we could be unable to make a timely purchase or sale of such securities.
- Investing in any security involves some level of risk; stocks, which represent equity or ownership in a company, are considered inherently risky and no return is predictable or guaranteed when investing in any stock or stock-based fund.
- Investing in international markets presents additional risks including currency fluctuations, the potential for diplomatic and political instability, regulatory and liquidity risks and foreign taxation among others. The risks of foreign investing are generally greater in emerging markets.
- High yield bonds carry greater risks than bonds rated as investment grade. For example, they are issued by organizations that do not qualify for an investment grade rating by one of the rating agencies because of the potential for higher default by the issuer. Further financial difficulties experienced by the issuer can result in a decrease in the market value of the bond, and this can make it impossible to liquidate the bond prior to maturity.
- ETFs are typically investment companies that are legally classified as open-end mutual funds or UITs. However, they differ from traditional mutual funds, in that ETF shares are listed on a securities exchange. Shares can be bought and sold throughout the trading day like shares of other publicly traded companies. ETF shares can trade at a discount or premium to their net asset value. The difference between the bid price and the ask price is often referred to as the "spread." The spread varies over time based on the ETF's trading volume and market liquidity and is generally lower if the ETF has a lot of trading volume and market liquidity and higher if the ETF has little trading volume and market liquidity. Although many ETFs are registered as an investment company under the Investment Company Act of 1940 like traditional mutual funds, some ETFs (e.g. those that invest in commodities), are not registered as an investment company.
- Business development companies ("BDCs") are operated for the purpose of making investments in small and developing businesses, as well as financially troubled businesses. BDCs can also make managerial assistance available to certain companies in its portfolio. BDCs are only required to disclose net asset value on a quarterly basis. BDCs are often characterized as a publicly traded venture capital or private equity firm that is subject to certain provisions of the Investment Company Act. BDCs can be speculative investments because of the types of investments they make. These risks include, but are not limited to, portfolio company credit and investment risk, leverage risk, market and valuation risk, price volatility risk, liquidity risk, capital markets risk, interest rate risk, dependence on key personnel, and structural and regulatory risk.

- Managed futures funds, hedge funds and non-traded real estate investment trusts can be purchased within client accounts on a non-discretionary basis by clients meeting certain standards. Investing in these funds involves additional risk including, but not limited to, the risk of investment loss due to the use of leveraging and other speculative investment practices and lack of liquidity and performance volatility. In addition, these funds are not required to provide periodic pricing or valuation information to investors and can involve complex tax structures and delays in distributing tax information. You should be aware that many of these funds are illiquid, as there is no secondary trading market available.
- Structured products are securities derived from another asset, such as a security or a basket of securities, an index, a commodity, a debt issuance, or a foreign currency. Structured products frequently limit the upside participation in the reference asset. Structured products are senior unsecured debt of the issuing bank and subject to the credit risk associated with that issuer. This credit risk exists even if the investment held in the account offers principal protection. The creditworthiness of the issuer does not affect or enhance the likely performance of the investment other than the ability of the issuer to meet its obligations. Any payments due at maturity are dependent on the issuer's ability to pay. In addition, the trading price of the security in the secondary market, if there is one, can be adversely impacted if the issuer's credit rating is downgraded. Some structured products offer full protection of the principal invested, others offer only partial or no protection. Investors have the potential to sacrifice a higher return to obtain the principal guarantee. In addition, the principal guarantee relates to nominal principal and does not offer inflation protection. An investor in a structured product does not have a claim on the underlying investment, whether a security, zero coupon bond, or option. There can be little or no secondary market for the securities and information regarding independent market pricing for the securities can be limited. This is true even if the product has a ticker symbol or has been approved for listing on an exchange. Tax treatment of structured products can be different from other investments held in the account (e.g., income can be taxed as ordinary income even though payment is not received until maturity). Structured CDs that are insured by the FDIC are subject to applicable FDIC limits.

### **Performance Based Fees and Side-By-Side Management:**

The Firm does not charge performance-based fees to clients.

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

Sterling Financial Group, through its advisors, is responsible for account management; there is no separate portfolio manager involved. The Firm obtains the necessary financial data from the client and assists the client in setting an appropriate investment objective for the account. This information is obtained through detailed discussions and by having the client complete a written investment advisory agreement and other documentation. Clients are encouraged to contact Sterling Financial Group if there have been any changes in their financial situation or investment objectives or if they wish to impose any reasonable restrictions on the management of the account or reasonably modify existing restrictions. Clients should be aware that the investment objective selected for the account is an overall objective for the entire account and can be inconsistent with a particular holding and the account's performance at any time. Clients should be aware that achievement of the stated investment objective is a long-term goal for the account.

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

Clients should contact Sterling Financial Group at any time with questions regarding their account(s).

## **Item 9 – Additional Information**

### **Disciplinary Information:**

There are no legal or disciplinary events that are material to a client's or prospective client's evaluation of our advisory business or the integrity of our management.

### **Other Financial Industry Activities and Affiliations:**

Acting as independent insurance agents, advisors of our firm can suggest that clients implement recommendations through an insurance company. If the client chooses to do so, this will present a conflict of interest to the extent that the advisor would receive normal and customary commissions as a licensed insurance agent. Clients can implement and execute such transactions through an advisor of our firm. However, clients are under no obligation to accept recommendations, or to execute transactions through individuals associated with our firm.

As a result of the relationship with LPL Financial, LPL Financial Advisors has access to certain confidential information (for example, financial information, investment objectives, transactions, and holdings) Sterling Financial Group's clients, even if the client does not establish any account through LPL Financial. If you would like a copy of LPL Financial's privacy policies, please contact Sterling Financial Group to request copies.

### **Code of Ethics, Participation or Interest in Client Transactions and Personal Trading:**

The Firm recognizes that the personal investment transactions of its members and employees demand the application of a high code of ethics and require that all such transactions be carried out in a way that does not endanger the interest of any client. At the same time, we believe that if investment goals are similar for clients and for members and employees of our firm, it is logical and even desirable that there be common ownership of some securities.

Therefore, to prevent conflicts of interest, we have in place a set of procedures with respect to transactions effected by our members, officers, and employees for their personal accounts. To monitor compliance with our personal trading policy, personal securities transactions for all associates are routinely reviewed.

Therefore, to prevent conflicts of interest, we have in place a set of procedures with respect to transactions effected by our members, officers, and employees for their personal accounts. To monitor compliance with our personal trading policy, we review personal securities transactions for all our associates.

Furthermore, our firm has established a Code of Ethics which applies to all our associated persons, and requires that all employees of Sterling Financial Group:

- Act in accordance with our duty as a fiduciary. As a fiduciary, it is an investment advisor's responsibility to provide fair and full disclosure of all material facts and to always act solely in the best interest of each of our clients. We have a fiduciary duty to all clients.

- Conduct business in an honest, ethical, and fair manner and avoid all circumstances that might negatively affect or appear to affect our duty of complete loyalty to all clients.
- Attest annually and abide by our Insider Trading and Personal Securities Transactions Policies and Procedures.
- Conduct business with the highest level of ethical standards and to always comply with all federal and state securities laws.
- Upon employment or affiliation and at least annually thereafter, all supervised persons will sign an acknowledgement that they have read, understand, and agree to comply with our Code of Ethics. Our Code of Ethics was adopted pursuant to SEC rule 204A-1.

This disclosure is provided to give all clients a summary of our Code of Ethics. However, if a client or a potential client wishes to review our Code of Ethics in its entirety, a copy will be provided promptly upon request.

LPL Financial's parent company, LPL Investment Holdings Inc. (ticker symbol LPLA), is a publicly traded company. Charles Schwab & Company's parent company, The Charles Schwab Corporation (tickers symbol SCHW), is a publicly traded company. Sterling Financial Group does not recommend or solicit orders of LPL Investment Holdings Inc. or Charles Schwab & Co. stock in Asset Management accounts.

### **Brokerage Practices:**

The Firm has a relationship with LPL Financial and Charles Schwab & Co. where they serve as custodian and executing broker/dealer for asset management accounts. In some cases, clients can choose to select another qualified custodian to execute asset management transactions. Sterling Financial Group requires that clients select and direct the custodian as the sole and exclusive broker/dealer to execute transactions for asset management accounts. All asset management transactions will be processed without commissions. While Sterling Financial Group believes that these custodians have execution procedures that are designed to obtain the best execution possible, there can be no assurance that best execution can be obtained. By selecting a particular custodian, clients have the potential to not achieve the most favorable execution.

### **Products and Services Available to Us from LPL**

Sterling Financial Group receives support services and/or products from LPL Financial, many of which assist Sterling Financial Group to better monitor and service program accounts maintained at LPL Financial; however, some of the services and products benefit Sterling Financial Group and not client accounts. These support services and/or products can be received without cost, at a discount, and/or at a negotiated rate, and include the following:

- investment-related research
- pricing information and market data
- software and other technology that provide access to client account data
- compliance and/or practice management-related publications
- consulting services
- attendance at conferences, meetings, and other educational and/or social events
- marketing support
- computer hardware and/or software

- other products and services used by Sterling Financial Group in furtherance of its investment advisory business operations

LPL Financial can provide these services and products directly or can arrange for third party vendors to provide the services or products to Sterling Financial Group. In the case of third-party vendors, LPL Financial can pay for some or all the third party's fees.

These support services are provided to Sterling Financial Group based on the overall relationship between Sterling Financial Group and LPL Financial. It is not the result of soft dollar arrangements or any other express arrangements with LPL Financial that involves the execution of client transactions as a condition to the receipt of services. Sterling Financial Group will continue to receive the services regardless of the volume of client transactions executed with LPL Financial. Clients do not pay more for services because of this arrangement. There is no corresponding commitment made by the Sterling Financial Group to LPL or any other entity to invest any specific amount or percentage of client assets in any specific securities because of the arrangement. However, because Sterling Financial Group receives these benefits from LPL Financial, there is a potential conflict of interest. The receipt of these products and services presents a financial incentive for Sterling Financial Group to recommend that its clients use LPL Financial's custodial platform rather than another custodian's platform.

## **Products and Services Available to Us from Schwab**

Schwab Advisor Services is Schwab's business serving independent investment advisory firms like Sterling Group. They provide Sterling Group and our clients with access to its institutional brokerage – trading, custody, reporting and related services – many of which are not typically available to Schwab retail customers. Schwab also makes available various support services. Some of those services help us manage or administer our clients' accounts while others help us manage and grow our business. Schwab's support services generally are available on an unsolicited basis (i.e., Sterling Group does not have to request them) and at no charge to us if we maintain a total of at least \$10 million of our clients' assets in accounts at Schwab. Below is a detailed description of Schwab's support services:

*Schwab Services that Benefit You.* Schwab's institutional brokerage services include access to a broad range of investment products, execution of securities transactions, and custody of client assets. The investment products available through Schwab include some to which we might not otherwise have access or that would require a significantly higher minimum initial investment by our clients. Schwab's services described in this paragraph generally benefit you and your account.

*Schwab Services that Perhaps will Not Directly Benefit You.* Schwab also makes available to us other products and services that benefit us but perhaps will not directly benefit you or your account. These products and services assist Sterling Group in managing and administering our clients' accounts. They include investment research, both Schwab's own and that of third parties. Sterling Group can use this research to service all, some or a substantial number of our clients' accounts. In addition to investment research, Schwab also makes available software and other technology that:

- provide access to client account data (such as duplicate trade confirmations and account statements);
- facilitate trade execution and allocate aggregated trade orders for multiple client accounts;
- provide pricing and other market data;
- facilitate payment of our fees from our clients' accounts; and

- assist with back-office functions, recordkeeping, and client reporting.

*Schwab Services that Generally Benefit Only Us.* Schwab also offers other services intended to help us manage and further develop our business enterprise. These services include:

- educational conferences and events;
- technology, compliance, legal, and business consulting;
- publications and conferences on practice management and business succession; and
- access to employee benefits providers, human capital consultants and insurance providers.

Schwab will at times provide some of these services itself. In other cases, it will arrange for third-party vendors to provide the services to us. Schwab also has the option to discount or waive its fees for some of these services or pay all or a part of a third party's fees. In addition, Schwab can provide Sterling Group with other benefits such as occasional business entertainment of our personnel.

Sterling Group's use of Schwab's services stated in the three preceding sections consists of utilizing their access to its institutional brokerage services, including the broad range of investment products, execution of the securities transactions and custody of our client assets. Schwab provides us access to Schwab Advisor Center, which provides us with client account data, facilitates trade execution, pricing and other market data, facilitates payment of our fees from our clients and other recording keeping functions. Sterling Group does attend some of the education seminars and conferences that Schwab hosts.

### **Sterling Financial Group's Beneficial Interest in Schwab's Services**

The availability of these services from Schwab benefits us because Sterling Group does not have to produce or purchase them. Sterling Group does not have to pay for Schwab's services so long as we keep a total of at least \$10 million of client assets in accounts at Schwab. The \$10 million minimum could give Sterling Group an incentive to recommend that you maintain your account with Schwab based on our interest in receiving Schwab's services that benefit our business rather than based on your interest in receiving the best value in custody services and the most favorable execution of your transactions. This is a potential conflict of interest.

Sterling Group believes, however, that our selection of Schwab as custodian/broker is in the best interests of our clients. It is primarily supported by the scope, quality and price of Schwab's services (based on the factors discussed above) and not Schwab's services that benefit only us. We do not believe that maintaining at least \$10 million of those assets at Schwab in order to avoid paying Schwab quarterly service fees presents a material conflict of interest.

While Sterling Financial Group strives to achieve the best execution possible for client securities transactions and believes that these custodians have execution procedures that are designed to obtain the best execution possible, there can be no assurance that best execution can be obtained. By selecting a particular custodian, clients have the potential to not achieve the most favorable execution. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the overall best qualitative execution, taking into consideration the full range of a broker-dealer's services, including among others, net price, reputation, financial strength and stability, efficiency of execution and error resolution, the size of the transaction and the market for the security. Consistent with the foregoing, while Sterling Financial Group

will seek competitive rates, it is possible the firm will not necessarily obtain the lowest possible commission rates for client transactions.

To ensure that brokerage firms selected by Sterling Financial Group are conducting overall best qualitative execution, Sterling Financial Group will periodically (and no less often than annually) evaluate the trading process and brokers utilized. This evaluation will include, but is not limited to price, commission, timing, research, aggregated trades, capable floor brokers or traders, competent block trading coverage, ability to position, capital strength and stability, reliable and accurate communications and settlement processing, use of automation, knowledge of other buyers or sellers and administrative ability.

The Firm seeks to make available only custodians who will hold client assets and execute transactions on terms that we feel are most advantageous when compared to other available providers and their services. We consider a wide range of factors, including, but not limited to the following:

- Combination of transaction execution services along with asset custody services (generally without a separate fee for custody).
- Capability to execute, clear and settle trades (buy and sell securities for your account).
- Capability to facilitate transfers and payments to and from accounts (wire transfers, check requests, bill payment, etc.).
- Breadth of investment products made available (stocks, bonds, mutual funds, ETFs, etc.).
- Availability of investment research and tools that assist in making investment decisions.
- Competitive pricing of those services (commission rates, margin interest rates, other fees, etc.) and willingness to negotiate them.
- Reputation, financial strength, and stability of the provider.
- Prior service to Sterling Financial Group and its clients.
- Availability of other products and services that benefit us, as discussed below.

The Firm has a non-soft-dollar arrangement with the custodians from which services are received, such as research and administrative functions, including portfolio pricing, account statement generation and fee calculations, software and other technology that provide access to client account data, and attendance at conferences, meetings and other educational and/or social events. These services are intended to support our firm in conducting business and in serving the best interests of our clients. Our firm does not receive client brokerage commissions (or markups or markdowns) in exchange for research or other products or services. Our recommendation of a qualified custodian to our clients is based on our clients' interests in receiving the best execution and the level of competitive, professional services that the qualified custodians provide.

We perform investment management services for various clients. There are occasions on which portfolio transactions are executed as part of concurrent authorizations to purchase or sell the same security for numerous accounts served by the Firm. Although such concurrent authorizations could be either advantageous or disadvantageous to any one or more accounts, they are affected only when we believe that to do so will be in the best interest of the effected accounts. When such concurrent authorizations occur, the objective is to allocate the executions in a manner which is deemed equitable to the accounts involved. In any given situation, we attempt to allocate trade executions in the most equitable manner possible, taking into consideration client objectives, current asset allocation and availability of funds, using price averaging, proration, and consistently non-arbitrary methods of allocation.

Sterling Financial Group typically aggregates orders. The advantages to aggregating are that the orders are handled in a way that mitigates market impact (as applicable and possible) and that each client gets the same (average) execution price. We can determine not to aggregate transactions, for example, based on the size of the trades, the number of client accounts, the timing of the trades, the liquidity of the securities, and the discretionary or non-discretionary nature of the trades. If orders are not aggregated, some clients purchasing securities around the same time will possibly receive a less favorable price than other clients. This means that the practice of not aggregating can cost clients more money.

### **Review of Accounts:**

Wrap Program accounts are reviewed individually on a periodic basis, no less than annually and changes are made to such accounts as appropriate. Such factors that would cause a change to a client's asset allocation or individual investments would include, among other things, our assessment of the economic climate, specific investment attributes, outlook, and relative value, as well as our understanding of our client's overall objectives, cash flow needs and goals. Please see Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss, for details on our review process.

Any activity in a Wrap Program account will be reflected on the monthly or quarterly statement from the account's custodian, showing account activity as well as positions held in the account at month end. For managed accounts where LPL Financial and Schwab serves as the custodian, you will also receive a detailed quarterly performance report prepared by LPL Financial and Schwab on behalf of Sterling Financial Group.

### **Client Referrals and Other Compensation:**

Currently, Sterling Financial Group does not have any solicitation or referral arrangements in place whereby the firm compensates referring parties for client referrals. However, Sterling Financial Group can in the future enter into agreements with individuals and organizations, some of whom will be affiliated or unaffiliated with the firm, that refer clients to the firm. All such agreements will be in writing and comply with the applicable state and federal regulations.

As a result of our relationship with LPL Financial, we can receive production bonuses, stock options to purchase shares of LPL Financial's parent company, and other things of value such as free or reduced-cost attendance at events hosted by LPL Financial. Such compensation can be based on overall revenue produced and/or on the amount of assets serviced through LPL Financial. Thus, there is a financial incentive for us to recommend establishing an account at LPL Financial. We take our responsibilities to clients very seriously and will only recommend that clients use LPL Financial for custody and hire us for management services if we believe it is appropriate and, in the client's best interests.

We receive an economic benefit from Schwab in the form of the support products and services it makes available to us and other independent investment advisers whose clients maintain their accounts at Schwab. In addition, Schwab has also agreed to pay for certain products and services for which we would otherwise have to pay once the value of our clients' assets in accounts at Schwab reaches a certain size. You do not pay more for assets maintained at Schwab because of these arrangements. However, we benefit from the arrangement because the cost of these services would otherwise be borne directly by us. You should consider these conflicts of interest when selecting a custodian. The products and services provided by Schwab, how they benefit us, and the related conflicts of interest are described above.



**Custody:**

We do not maintain actual custody of client funds or securities. Under federal regulations, Sterling Financial Group is deemed to have custody of client funds or securities by reason of the fact that we have authority to debit fees directly from the client's account and certain clients have, and can in the future, sign a Standing Letter of Authorization (SLOA) that gives Sterling Financial Group the authority to transfer funds to a third-party as directed by the client in the SLOA. Custody is defined as any legal or actual ability by the Firm to withdraw client funds or securities. Firms with deemed custody must take the following steps:

1. Ensure clients' managed assets are maintained by a qualified custodian;
2. Have a reasonable belief, after due inquiry, that the qualified custodian will deliver an account statement directly to the client at least quarterly;
3. Confirm that account statements from the custodian contain all transactions that took place in the client's account during the period covered and reflect the deduction of advisory fees; and
4. Obtain a surprise audit by an independent accountant on the clients' accounts for which the advisory firm is deemed to have custody.

However, the rules governing the direct debit of client fees and SLOAs exempts Sterling Financial Group from the surprise audit rules if certain conditions (in addition to steps 1 through 3 above) are met. Those conditions are as follows:

1. When debiting fees from client accounts, Sterling Financial Group must receive written authorization from clients permitting advisory fees to be deducted from the client's account.
2. In the case of SLOAs, Sterling Financial Group must: (i) confirm that the name and address of the third party is included in the SLOA, (ii) document that the third-party receiving the transfer is not related to the Firm, and (ii) ensure that certain requirements are being performed by the qualified custodian.

Advisers, such as Sterling Financial Group, which are deemed to have custody solely as a consequence of the authority to debit fees directly from client accounts and SLOAs signed by the clients are not required to obtain an independent verification of those client funds and securities maintained by a qualified custodian so long as the steps above are followed.

To mitigate any potential conflicts of interests, all Sterling Financial Group client account assets will be maintained with an independent qualified custodian. We will not have access to client funds or securities except for having advisory fees deducted from client accounts and paid to us by the custodian, and SLOAs signed by the clients. Any fee deductions and SLOAs will be done pursuant to client's written authorization provided to the custodian. All our clients will receive at least quarterly account statements directly from their custodians. If we decide to send account statements to clients, the account statements include a legend that recommends that the client compare the account statements received from the qualified custodian with those received from our firm. We encourage our clients to raise any questions with us about the custody, safety, or security of their assets. The account custodian will send you independent account statements listing your account balance(s), transaction history and any fee debits or other fees taken out of your account. Clients should understand that it is their responsibility to ensure that the fee calculation is correct, and not the custodian.

**Investment Discretion:**

The Firm accepts discretionary authority over the management of client accounts in the Wrap Program. Discretionary authority is limited only to affecting trades in client accounts. We will determine the type and the amount of securities that are bought or sold without obtaining client consent for each trade. Clients must sign a discretionary investment advisory agreement with our firm for the management of an account. Clients can also elect to have us maintain accounts on a non-discretionary or non-managed basis.

**Voting Client Securities:**

The Firm does not and will not accept the proxy authority to vote client securities. Clients will receive proxies or other solicitations directly from their custodian or a transfer agent. If proxies are sent to our firm, we will forward them on to the client and ask the party who sent them to mail them directly in the future. Clients can call, write, or email us to discuss questions they have about particular proxy votes or other solicitations.

**Financial Information:**

Sterling Financial Group does not require or solicit prepayment of more than \$1,200 in fees per Client, six months or more in advance and therefore is not required to provide, and has not provided, a balance sheet. Sterling Financial Group does not have any financial commitments that impair its ability to meet contractual and fiduciary commitments to clients and has not been the subject of a bankruptcy proceeding.