



## **Part 2A Appendix I of Form ADV: Wrap Fee Program Brochure**

### **Centaurus Financial, Inc.**

2300 E. Katella Ave., Suite 200

Anaheim, CA 92806

(800) 880-4234

[www.CentaurusFinancial.com](http://www.CentaurusFinancial.com)

**July 29, 2022**

This Wrap Fee Program Brochure (“Wrap Brochure”) provides information about the qualifications and business practices of Centaurus Financial, Inc. (“CFI” or the “Firm”). If you have any questions about the contents of this Wrap Brochure, please contact us at (800) 880-4234 or [cficompliance@cfiemail.com](mailto:cficompliance@cfiemail.com).

The information in this Wrap Brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority. CFI is a Registered Investment Adviser. Registration with the SEC or any state securities authority does not imply a certain level of skill or training.

Additional information about CFI is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Select “FIRM” and enter our unique identifying number, known as a CRD number, which is 30833.

## Item 2: Material Changes

CFI is required to disclose any material changes that have been made to the Wrap Brochure since the last annual update. The Wrap Brochure may be updated at any time, and any material changes will either be sent to clients as a summary of those changes, or clients will receive the entire updated Wrap Brochure depending on the extent of those changes.

### Obtaining a Copy of the Wrap Brochure

Additional copies of this Wrap Brochure can be obtained in the following ways:

1. Contact the Investment Adviser Representative (“IAR”) with whom you are working;
2. Download the Wrap Brochure from the SEC website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) (select “FIRM” and enter our CRD number, 30833);
3. Download the Wrap Brochure from the CFI website at [www.CentaurusFinancial.com/cfi/803adv/](http://www.CentaurusFinancial.com/cfi/803adv/).

### Summary of Material Changes

The following is a summary of material changes since the last update of the Wrap Brochure on **July 30, 2021**:

There have been no material changes since the last update.

### Item 3: Table of Contents

|  |    |
|--|----|
| Item 1: Cover Page .....                                       | 1  |
| Item 2: Material Changes .....                                 | 2  |
| Item 3: Table of Contents.....                                 | 3  |
| Item 4: Services, Fees and Compensation .....                  | 4  |
| Item 5: Account Requirements and Types of Clients.....         | 12 |
| Item 6: Portfolio Manager Selection and Evaluation.....        | 12 |
| Item 7: Client Information Provided to Portfolio Managers..... | 16 |
| Item 8: Client Contact with Portfolio Managers .....           | 16 |
| Item 9: Additional Information.....                            | 16 |

## Item 4: Services, Fees and Compensation

### A. Advisory Services Offered

The services provided by IARs primarily include asset allocation, investment management and the utilization of Third-Party Money Managers (“TPMMs”) to manage client assets as deemed suitable. IARs may provide advisory services on a non-discretionary or discretionary basis. Clients who choose a non-discretionary advisory arrangement must be contacted by their IAR and provide authorization prior to the execution of any trades in their account(s). Clients who choose a discretionary advisory arrangement authorize their IAR to supervise and direct the portfolio management of the account(s) without prior consultation and approval by the client. CFI offers the following advisory services.

- **CLASSIC Plus Wrap Programs**

CLASSIC Plus is a fee-based advisory program where IARs manage client accounts or, depending on the program selected, may choose from approved TPMMs to manage their assets within an account for an annual advisory fee. CLASSIC Plus allows clients to invest in various types of securities such as, but not limited to:

- Stocks
- Mutual Funds
- Bonds
- Options
- Exchange Traded Funds (ETFs)
- Unit Investment Trusts (UITs)
- Alternative Investments
- Cash and/or Cash Equivalents

CLASSIC Plus offers multiple clearing and custodial options depending on the program selected. After consultation with their IAR, a client may select a CLASSIC Plus program appropriate for their objectives, goals, financial situation and risk tolerance, and will enter into an investment advisory agreement with CFI and the IAR for those services. In selecting a desired CLASSIC Plus program, the client will authorize CFI to open an account with the available custodian at the time the client enters into the investment advisory agreement. Specifics of each program, including the minimum investment, available custodian, fees, expenses and other important information, are disclosed in the investment advisory agreement for each available program.

- **CLASSIC Plus – Morningstar® Managed Portfolios<sup>SM</sup>**

CFI offers Morningstar® Managed Portfolios<sup>SM</sup> (“MMP”) through the Firm’s custodial relationship with Pershing. MMP offers professional guidance and access to strategies that can help investors reach their financial goals. The broad lineup of stock, ETF and mutual fund-managed portfolios is designed to help meet the needs of clients at each stage of their lifetime.

MMPs are offered by Morningstar Investment Services LLC, a Registered Investment Adviser and subsidiary of Morningstar Investment Management LLC. MMPs are intended for citizens or legal residents of the United States or its territories and can only be offered by a Registered Investment Adviser or IAR. Portfolio construction and ongoing monitoring and maintenance of the portfolios within the program are provided on Morningstar Investment Services’ behalf by Morningstar Investment Management LLC, a Registered Investment Adviser and subsidiary of Morningstar, Inc. Morningstar Investment Services LLC and its affiliates are not affiliated with Centaurus Financial, Inc. or its affiliates.

- **CLASSIC Plus – FlexUMA**

CFI offers CLASSIC Plus – FlexUMA (“FlexUMA”), which is a unified managed account investment program, through the Firm’s relationship with TD Ameritrade Institutional and Pershing. FlexUMA features investment overlay

managers Adhesion Wealth Advisor Solutions and Lockwood Advisors, Inc. (“Overlay Managers”). FlexUMA consists of model portfolio strategies comprising individual equity securities, mutual funds and/or exchange-traded funds (“ETFs”) and also provides clients with access to a variety of approved TPMMs. Clients will not have a direct contractual relationship with Overlay Managers, or any other third-party strategist and/or third-party manager (collectively, “Third-Party Service Provider”), through the program, and will work directly with their IAR through CFI.

Prior to investing in the FlexUMA program, clients will consult with their IAR and enter into an investment advisory agreement with CFI and the IAR for those services. Depending on the management services selected, clients will grant the IAR discretionary or non-discretionary authority to manage the account through a selection of Third-Party Service Providers. In addition, clients will authorize the custodian to follow instructions given by the IAR, CFI or Overlay Managers to effect transactions, deliver securities, deduct fees and take other actions with respect to the account.

Tax Overlay Management (“Tax Overlay”) services are also available for an additional fee. If elected, Overlay Managers will develop a tax strategy for the account based on the information and instructions provided by the IAR or CFI on behalf of the client. Overlay Managers do not provide general tax advice, tax return preparation or tax-planning services. Overlay Managers will seek to reduce the overall tax burden of the account while seeking to maintain the risk and return characteristics of the model portfolios received from Third-Party Service Providers on the account. Overlay Managers will seek to avoid short-term gains where possible, but long-term gains are not limited unless the client has requested a mandate to limit realized long-term gains.

Overlay Managers will provide Tax Overlay with the assumption that those services will be provided to the account for an entire tax year. Termination or removal of the Tax Overlay before the completion of an entire tax year may result in adverse tax consequences, including without limitation, realization of short-term capital gains. Regardless of the account size or other factors, CFI highly recommends that clients consult with their CPA or tax adviser regarding the election or removal of the Tax Overlay service on their account. It is important that clients review the Form ADV Part 2A Brochures for Overlay Managers and other disclosure documents prior to, or at the time of, opening a FlexUMA account.

- **CLASSIC Plus – Adviser Directed**

CFI provides an additional service for client held-away accounts that are maintained at independent third-party Custodians. When this additional service is elected by a client, CFI utilizes the Pontera order management system to implement asset allocation or rebalancing strategies on behalf of the client for these held-away accounts. These are primarily employer-sponsored retirement plan accounts, 529 plans and other assets primarily maintained by the client.

- **CLASSIC Plus – Advisory Annuity & Variable Life Management**

CFI offers the CLASSIC Plus Advisory Annuity (“AA”) and Variable Life (“VL”) management programs. IARs manage the sub-account assets within a client’s annuity or variable life policy directly with the issuing insurance company. IARs may provide this service on a non-discretionary or discretionary basis. Prior to providing this service, the client will consult with their IAR and enter into an agreement with CFI and the IAR for those services, if the client deems that the management of their annuity or variable life policy is appropriate. Management of annuity or variable life sub-accounts is limited to the sub-accounts available and offered by the issuing insurance company for the specific policy. If a commission is earned by the IAR upon the purchase of a specific policy to be managed, an advisory fee is not imposed for at least twelve months from the original purchase date.

- **CLASSIC Plus – Alternative Investments and Direct Participation Programs**

CFI generally does not allow its clients to hold alternative investments or direct participation programs in fee-based advisory accounts. However, at our discretion, CFI may hold alternative investments or direct participation programs (DPPs) such as non-traded REITs, non-traded BDCs, private real estate investments and certain other direct participation programs in advisory accounts held at Pershing, TD Ameritrade or Charles Schwab at a client's request under certain circumstances. Alternative investments or direct participation programs are generally not traded on a national securities exchange and therefore have no readily available market value. In some cases, holding these assets in an advisory account may allow clients to avoid additional custodial fees or account maintenance costs that may be incurred if the asset were held elsewhere. In some cases, customers may wish to consolidate accounts for simplicity and request that CFI hold otherwise "excluded" assets as an accommodation. The discretion to grant such requests rests solely with CFI.

However, with the exception of a limited list of perpetual life, non-traded REITs, most illiquid, alternative investment or direct participation programs are excluded by CFI from fee-based advisory accounts for purposes of calculating the asset-based fee assessed to the account. CFI has determined that most alternative investments cannot be managed or administered on a fee basis (due to their illiquidity, long-term holding period and infrequent valuations); therefore, most alternative investments are only offered by CFI on a commission basis through our affiliated Broker-Dealer. However, if such an asset is held in a fee-based account as an accommodation or otherwise, CFI has adopted policies and procedures to ensure such assets are excluded from the calculation of the asset-based fee charged to the account. Although many alternative investment products are made available by the investment sponsor/issuer for purchase "net of commission" to clients who pay an ongoing asset-based fee, CFI generally prohibits such net-of-commission purchases for the reasons previously provided. However, CFI does approve a select list of direct participation programs for use in advisory accounts net of commission or at net asset value as discussed in more detail below. Therefore, a CFI client who wishes to purchase an alternative investment/DPP that is not made available through CFI's fee-based platform may not be able to purchase such an investment on a fee basis. In those instances, CFI will typically only make such an investment available through its affiliated Broker-Dealer and will require that if the IAR wishes to offer such an investment, he/she does so in his/her capacity as a registered representative, if appropriate. If the IAR acts in his/her capacity as a registered representative, he/she will typically be compensated through the receipt of his/her share in the commission paid by the product and, depending on the selected share class, may be paid ongoing distribution fees. It is possible that other registered investment advisory firms could offer the same investment net of commission on a fee basis based on their own policies, and CFI clients have no obligation to purchase this type of investment (or any investment) through CFI's affiliated Broker-Dealer. If a purchase is made on a commission basis through a registered representative, such commissions and fees are outlined in the prospectus or offering memorandum of the particular offering and should also be discussed directly with the representative. If a representative receives a commission based on the sale of an alternative investment/DPP, CFI has policies and procedures in place to ensure that a fee is not assessed on that asset if it is moved to a fee-based account.

As stated above, CFI has made certain non-traded investments available for purchase and management in its fee-based accounts. Typically, such investments are approved for fee-based accounts based on distinguishing characteristics of the particular investment, such as more frequent valuations, enhanced liquidity or opportunity for management of the investment through more frequent buy or sell opportunities (redemptions). These investments are approved to be recommended at net asset value (NAV) and therefore up-front commissions are not charged to clients. CFI typically only allows non-traded investments to be held in its fee-based accounts and included in the calculation of the asset-based fee of the account if the particular non-traded investment has policies in place or has indicated the ability to establish a reliable valuation process. CFI does not participate in the third-party valuation process.

- **CLASSIC Plus – Performance Reporting**

In addition to account statements provided by the account custodian, clients may also have access to quarterly performance reports noting fees, holdings, account performance and other account-related information. Performance reports are provided for informational purposes only and are not official records of CFI. Reports are prepared using sources and information believed to be reliable and are not a guarantee of positions owned or of the market value of such positions. Although great effort is taken to provide accurate information, these reports should not be used for tax or legal purposes. Clients should compare performance reports against statements received from the account custodian and should bring any inconsistencies or questions to the immediate attention of their IAR or CFI.

CFI has entered into an agreement with Orion Advisor Services, LLC (“Orion”) and Overlay Managers to provide, among other things, account reconciliation, reporting, securities pricing and valuation and fee-calculation services for client accounts. In computing the market value of any security or other investment in the account, each security listed on a national securities exchange will be valued by Orion and/or Overlay Managers, as of the valuation date, at the price on the principal exchange on which it is traded, or as determined by Orion and/or Overlay Managers. Any other security or investment in the account will be valued based on prices obtained or provided by Orion and/or Overlay Managers.

- **Retirement Plan Services**

CFI, through its IARs, may also provide advisory services to ERISA-qualified plans, such as pensions, 401(k) plans, profit sharing plans and other retirement saving vehicles (the “Plan”). IARs will review with the client the expectations, goals and attributes of the Plan to determine the course of action to be taken. Such services are further outlined in a separate ERISA Plan Disclosure. IARs may serve as the Plan’s investment adviser pursuant to §3(21) of ERISA by formulating and presenting recommendations to assist the Responsible Plan Fiduciary (“RPF”) for his/her approval. IARs will evaluate the demographics of the Plan’s participants to help select investment options that are appropriate for their retirement needs based upon ERISA §404(c)’s requirement that participant-directed retirement plans offer a “broad range” of investment options. IARs may prepare a summary of services recommended, including employee plan enrollment, employee education seminars and assisting the RPF with service provider selection and review.

In providing advice to ERISA-qualified Plans, IARs are not permitted to have discretion or management authority over plan assets, nor can they be a “named fiduciary.” As such, IARs are limited to providing non-discretionary services. IARs may recommend placing assets with a TPMM who may be given additional authority by the Plan. Any such services provided by a TPMM are subject to a separate agreement executed between the Plan and the TPMM.

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.

## **Fees & Compensation**

CFI and the IAR are generally compensated for the investment management of the advisory account by charging an annual asset-based advisory fee. Specifics of each program, including the minimum investment, available custodian, applicable TPMM fees, expenses and other important information are disclosed in the investment advisory agreement for each available program.

In general, advisory fees are negotiable at the discretion of the IAR and may differ from client to client or within various accounts of a single client. Advisory fees charged may be calculated on a tiered or flat rate schedule. A flat rate schedule means a set percentage will be assessed against the total value in the account, while a tiered rate schedule means that fees are blended. For example, as the portfolio value reaches a new account balance threshold, the assets greater than the prior threshold are charged a successively lower rate. The maximum advisory fee that an IAR may charge is determined by CFI or the applicable TPMM, and is set forth in the program fee schedule below:

| CLASSIC Plus Programs | Advisory Fee Billing Method                   | Account Custodian           | Minimum Account Value | Maximum Advisory Fee |
|-----------------------|---|-----------------------------|-----------------------|----------------------|
| Alpha (N1X)           | Monthly in Arrears                            | Pershing LLC                | \$25,000              | 2.25%                |
| ABJ                   | Monthly in Arrears                            | Pershing LLC                | \$0                   | 2.25%                |
| MMP                   | Quarterly in Advance                          | Pershing LLC                | \$25,000              | 1.10%                |
| Omega                 | Monthly in Arrears                            | TD Ameritrade Institutional | \$25,000              | 2.25%                |
| FlexUMA               | Monthly in Arrears                            | TD Ameritrade Institutional | \$0                   | 2.25%                |
|                       | Monthly in Arrears                            | Pershing LLC                | \$10,000              | 2.25%                |
| Adviser Directed      | Monthly in Arrears                            | Plan Custodian              | \$25,000              | 1.35%                |
| AA & VL               | Monthly or Quarterly in Arrears or in Advance | Issuing Insurance Company   | \$25,000              | 2.00%                |

#### B. Costs of Services if Provided Separately

The fees paid for any associated wrap fee program cover the advisory fee, brokerage commissions and, depending on the specific program, other trading and transaction-based costs placed through the program’s custodian. Pursuant to account size, product type and trade volume, among other factors, the cost of participating in the program selected may be more or less than the cost of paying for the services separately.

#### C. Fees in Addition to the Wrap Fee

In addition to the wrap fee, depending on the program selected, additional charges such as custodial fees, transfer fees, internal fund fees, TPMM investment management fees and other administrative and operational-related fees may be assessed against the account. These charges are separate and apart from the wrap fee assessed against the account. Information regarding additional fees and expenses is available in the investment advisory agreement for the program selected along with the custodial fee schedule, prospectus or other fee-disclosure document for the particular security or party assessing the charge. Certain investments held within an advisory account such as Mutual Funds, Unit Investment Trusts (UITs) or Exchange Traded Funds (ETFs) may have internal expenses in addition to other fees for the account.

Many mutual funds that CFI makes available to clients for investment are categorized into different share classes. Each share class represents an interest in the same portfolio of securities. Some of these share classes pay a 12b-1 fee to the custodian in which securities are held. A 12b-1 fee is derived from the fund’s assets and is paid for shareholder services, distribution and marketing expenses. Share classes that pay a 12b-1 fee generally have a higher cost than those classes that do not. As a result, a lower return may be realized from the investment if the IAR recommends a higher cost share class when a lower cost share class is otherwise available. This creates a conflict of interest by incentivizing the IAR to recommend a higher cost share class if the custodian keeps or shares this 12b-1 fee with CFI as a dually registered Broker-Dealer, and CFI may in turn keep or share this fee with the IAR in their capacity as a dually Registered Representative of CFI, the Broker-Dealer. In order to mitigate this potential for a conflict of interest, CFI began to credit back all 12b-1 fees received to client accounts in September 2018. Therefore, as of September 2018,



neither CFI nor its IARs receive revenue from 12b-1 fees. At no cost to clients, CFI reserves the right to initiate a conversion of client holdings in any share classes that pay a 12b-1 fee to lower cost share classes, if available and known to CFI. CFI will not provide notice to clients in advance of the conversion. CFI will continue to credit back all 12b-1 fees to client accounts where CFI has not yet completed a conversion to the lowest cost share class available to CFI.

CFI offers products from Pershing's Fundvest® mutual fund platform, which features no-transaction-fee ("NTF") mutual funds (e.g., no trading commissions, no front-end sales loads, no deferred sales charges). The NTF transactions are subject to certain restrictions on short-term trading. Once certain asset thresholds of Fundvest® mutual funds are met, CFI has the ability to receive revenue-sharing fees from Pershing related to certain Fundvest® investments. CFI clients do not pay these fees directly, but the revenue-sharing fees are typically deducted from the total assets in the mutual fund and would therefore reduce investment returns to the client. In order to eliminate this conflict, CFI directs Pershing to credit back any service fees generated from advisory assets held on the Fundvest® platform to client accounts. Under the current agreement with Pershing, CFI also receives 12b-1 fees from Pershing on certain share classes in the Fundvest® mutual fund platform. As with all 12b-1 fees received for advisory accounts since 2018, CFI credits back 12b-1 fees paid under this arrangement to the client account.

CFI offers a cash "sweep" program to clients who hold accounts at Pershing, our clearing firm. A cash sweep program enables clients to choose to automatically move uninvested free credit balances in certain brokerage and advisory accounts to a money market mutual fund or interest-bearing FDIC-insured bank deposit program. The products available and the terms and condition of the cash sweep program vary and may change from time to time. Before choosing a product, please consult with your financial professional on the choices available and review the detailed terms and conditions contained in the prospectus or other offering document relating to the specific product. In addition, the terms and conditions of the cash sweep program may be changed by CFI at any time, subject to rules permitting such changes. CFI publishes some of the key terms and conditions of its cash sweep programs on its website under the "Investor Information" section.

The term "free credit balance" refers to the credit balance that remains in a client's account after all purchases are made and are free from withdrawal restrictions. A client's free credit balance generally originates from dividends, interest payments, and/or security sales and may be used at any time to purchase more securities in the account. Clients with a free credit balance are not required to utilize the sweep program and instead may elect to receive the money each month in the form of a withdrawal, invest the money, or allow the cash to sit idle as a free credit balance where it will earn no interest.

If a client selects a cash sweep option, CFI offers its clients a "Cash Sweep Program" pursuant to which the client may automatically transfer free credit balances into specific money market mutual fund products or into a deposit account that utilizes one or more banks whose deposits are insured by the FDIC. Upon opening a new account with CFI, the client will be provided with a Client Agreement/New Account Form and will be asked to select whether they would like their account to participate in the cash sweep program and, if selected, whether they would like to utilize a bank deposit program or money market mutual fund as their default sweep option. Upon executing the Client Agreement, you appoint our clearing firm, Pershing, as your authorized agent to establish and maintain your sweep accounts. You may contact your IAR at any time to opt out of participating in the Cash Sweep Program. Once opted out, any cash deposits will remain as a free credit balance and will not earn interest or be protected with FDIC insurance.

CFI has a conflict of interest in offering a Cash Sweep Program because it receives third-party payments based on the amount of deposits held in the Cash Sweep Program through Pershing. These payments are generally referred to as "distribution assistance" and are paid based on CFI's role in administering and complying with the terms of the program. For the money market funds and bank deposit programs available through the Cash Sweep Program, Pershing usually receives remuneration that comes out of the operating expenses of the money market funds or is paid by the depository institutions and, in most cases, CFI is entitled to receive a portion of the payments received by Pershing. For

money market funds, payments are calculated and made to CFI based on an assets-based formula, which means the payment made to CFI is based on the amount of assets held in the Cash Sweep Program. For the money market fund option, CFI may be entitled to receive up to 55 basis points, or 0.55%, of the assets held in the money market fund by CFI clients. The money market funds participating in the Cash Sweep Program generally have the right to lower payments to Pershing based on market conditions, and thus the amount that is eligible to be paid to CFI, which typically occurs in low interest rate environments in order to ensure a stable NAV or positive return to shareholders at the fund's discretion. The fees paid to CFI are in addition to what Pershing and the money market fund may charge to clients directly. For the FDIC-insured bank deposit program, CFI is entitled to be paid a portion of the gross interest rate payable to clients by the depository institutions based on the underlying individual account balance held in the bank deposit program. The fees in both money market funds and bank deposit accounts can be lower in low interest rate environments and will generally be higher in aggregate as interest rates increase. The interest paid to client accounts on assets held in the bank deposit program is determined by the banks in the program, not by CFI. Nonetheless, the amounts paid to CFI as distribution assistance are not available to be paid to clients and therefore generally reduce the rate of return to the client. This distribution assistance is in addition to the advisory fee that CFI and its IARs may receive in connection with such balances pursuant to the client's advisory contract. CFI's IARs do not receive any additional compensation based on assets held in the Cash Sweep Program. Since additional compensation is earned by CFI through the sweep options offered, a conflict of interest exists for CFI due to the economic benefit derived from the distribution assistance paid on cash balances being moved into the Cash Sweep Program rather than reinvested in other investment funds or securities where CFI may not receive the same economic benefit.

In addition, a conflict of interest exists in CFI's selection of the money market fund(s) utilized in the Cash Sweep Program. In order to ensure the quality of the product being offered and the suitability of the product for a client, as well as easing administrative burdens, CFI limits the money market funds available for its Cash Sweep Program through the Pershing platform. The additional compensation received in the form of distribution assistance creates a conflict of interest for CFI because CFI is incentivized to choose a sweep option that pays it the highest amount of distribution assistance. In many cases, the sweep products that are made available through Pershing that generate a higher amount of distribution assistance provide lower returns to the client. The foregoing conflicts of interest are mitigated under our policies and procedures that have been adopted for this purpose, but not eliminated. Specifically, IARs who make investment recommendations for the client account do not receive any economic benefit from these distribution assistance payments. Therefore, they have no financial incentive to recommend that the client hold assets in a Cash Sweep Account as opposed to other investment options. In terms of the money market fund or the bank program selection process, CFI considers other qualitative and quantitative factors in selecting the appropriate money market fund or bank deposit program to be utilized in its Cash Sweep Program in addition to the amount of distribution assistance or expenses incurred by the underlying funds, such as safety, liquidity, management strength and track record, and, where applicable, FDIC insurance limits. CFI also takes numerous other important factors into consideration, including but not limited to the risks to individual accounts, the risks to the Firm as a whole, diversifying cash management selections and brand recognition and strength. However, clients should understand that the above conflicts of interest exist and that there may be other more attractive options available to clients who wish to hold assets in cash, such as direct deposits in outside bank accounts or investments into other money market funds available for purchase outside of the Cash Sweep Program. In addition, if the client intends to hold large amounts of cash for a prolonged period of time that they do not intend to invest in other types of securities, the client should discuss this with their IAR and explore available options in addition to the options made available in the Cash Sweep Program.

Pursuant to CFI's Clearing Agreement with Pershing, CFI receives payments deemed "transition credits" of up to \$75 per retail and retirement account transferred onto the Pershing clearing platform after previously being held at other clearing firms or custodians. The payments may be used by CFI, in part, to offset certain costs that may be incurred in terminating or transferring client accounts from other firms. The payments are subject to certain restrictions and repayments by CFI for accounts that leave the Pershing platform within a certain timeframe. The payments create a conflict of interest in that CFI receives additional compensation from Pershing for opening a client account with Pershing, and therefore CFI has a financial incentive to encourage its advisers to advocate that a client open an

account with Pershing as opposed to encouraging the client to keep the account with a clearing firm or custodian that does not make such a payment to CFI. Notably, CFI does not share the transition credit payments with its advisers, but CFI has discretion to apply the transition credits to client accounts to offset costs incurred.

In an effort to provide a broad range of account options, certain advisory programs that are not “wrap fee” programs include a charge for individual transactions or “trades” in the account in addition to the advisory fee charged to the account. CFI receives compensation for each trade. Depending on the selection chosen in the advisory agreement for these programs, the transaction charges are billed to either the IAR or the client. When billed to the IAR, this arrangement, while agreed upon in the advisory agreement, represents a conflict of interest as the IAR has a financial incentive to recommend fewer trades in the account because the IAR is charged for each trade. When billed to the client, this arrangement represents a conflict of interest because CFI, as Broker-Dealer, receives compensation based on each trade, which provides an incentive for the Registered Investment Adviser to approve or recommend trading more frequently. This conflict is partially mitigated due to the fact that the individual IAR responsible for making recommendations for the account is not financially incentivized to trade more frequently because the individual IAR does not receive any of the compensation related to the transaction charges in the account. In addition, the above conflicts are mitigated by disclosing to the client which party is responsible for individual transaction charges in the advisory agreement as well as the general supervision of accounts to identify unusual trading activity. Before accepting or approving trades within a client’s account, the client should understand the type of account they own, who is responsible for transaction charges (the client or the IAR) and how the arrangement may affect each party’s incentive to recommend or approve trades. Before approving transactions in an account, it is important for the client to understand how the transaction helps them meet their objectives. If, through consultation with their IAR, the client determines that certain transactions will benefit their account, the client should weigh the potential benefit with any costs that they may incur in executing the transaction(s).

CFI receives compensation through strategic marketing arrangements with several third-party money managers. These payments are designed to compensate CFI for the cost of providing services, such as marketing and events, and therefore receipt of these funds indirectly benefits CFI IARs and creates a conflict of interest. Notably, CFI IARs do not directly receive any of the compensation paid to CFI from these strategic marketing arrangements.

Due to the additional resources required for the operational efforts, servicing, reporting, account maintenance and ongoing research required to select and maintain certain non-traded alternative investments, such as perpetual life REITs, CFI generally only makes available share classes that pay a service fee (generally up to 25 basis points, 1/4 of 1%) on total assets placed in the non-traded alternative investment by CFI client accounts (“Dealer Servicing Fee”) even if a less expensive share class is otherwise available. Receipt of these fees from the REIT (or other alternative investment) companies creates a conflict of interest in that CFI is encouraged to recommend an investment that pays additional compensation over one that does not pay such fees. Notably, CFI does not share these fees with its IARs.

The share class being offered by CFI (typically “D” shares or “Dealer” shares), including all associated fees and expenses, is fully described in the offering prospectus, and CFI encourages its clients to read and understand the prospectus before investing in any offering. Further, CFI requires that before a client purchases an approved alternative investment direct participation program in a fee-based account, such investor must first complete an Alternative Investment Order Form, acknowledging receipt of the prospectus, confirming certain investor and suitability information and an understanding of any other unique characteristics of an alternative investment direct participation program offering.

**RECRUITING AND TRANSITION ASSISTANCE** – To assist in the cost of transitioning from another investment advisory firm or, in the case of dually-licensed IARs, their former Broker-Dealer, CFI extends loans or transition assistance to certain IARs when joining CFI to assist with the IAR’s transition costs. The proceeds of the transition assistance loans are intended to be used for a variety of purposes, including but not limited to providing working capital to assist in funding the IAR’s business, satisfying outstanding debt owed to the IAR’s previous firm, technology set-up fees,

marketing and mailing costs, stationery and licensure transfer fees, moving expenses, office space expenses, and staffing support and additional labor costs. These loans are generally forgivable in nature based on the IAR reaching agreed-upon revenue targets or continuing to remain affiliated with CFI for a specified period of time. As these loans are generally forgivable, they should be considered as additional compensation to the IAR, which creates a conflict of interest. A forgivable loan based on a revenue or production target creates a conflict of interest in that the IAR is incentivized to act in a manner that results in the IAR earning more revenue in order to ensure that the loan is forgiven. Similarly, a loan that is forgiven based on the IAR remaining with CFI for a specified period of time is a conflict of interest in that the IAR may be incentivized to keep sales or revenue levels up to avoid being terminated for low production prior to the expiration of the forgivable term. More generally, the receipt of the recruiting/transition assistance creates a conflict of interest in that the IAR has a financial incentive to recommend that a client open and maintain an account with the Firm because, in addition to the fees that the IAR would earn directly from the client by opening and maintaining an account with CFI, the IAR also benefits if he/she is able to meet the specified production levels or length of service requirements in that the IAR can avoid having to repay the transition loan, which can be substantial.

Clients are under no obligation to purchase any recommended investment-related products or services through CFI or the Firm's associated IARs.

#### **D. Wrap Fee Program Compensation**

The IAR recommending the wrap fee program to the client receives compensation as a result of the client's participation in the program. The amount of this compensation may be more than what the IAR would receive if the client participated in other programs or paid separately for investment advice, brokerage, and other services. Therefore, the IAR may have a financial incentive to recommend the wrap fee program over other programs or services.

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

In general, the CLASSIC Plus advisory programs require a minimum account value. Typically, the minimum account value is \$25,000 but could be higher or lower depending on the program selected. For any billing period in which an account does not meet the minimum account value, CFI may, at its sole discretion, assess a minimum account value administration fee. Under certain circumstances, CFI may waive the account minimum at its sole discretion. Please refer to the specific investment advisory agreement for the advisory program selected for more information on any applicable minimum account value administration fees.

CFI, through its IARs, provides investment advice and services to a variety of clients including individuals, high-net-worth individuals, families, small businesses, corporations, charitable organizations, foundations, trusts, estates and other business entities.

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

#### **Selection and Review of Portfolio Managers**

CFI makes every effort to provide high-quality portfolio managers for advisory programs that offer a wide selection of models in which TPMMs may act as the portfolio manager for the account. TPMMs act as the portfolio manager and/or strategist on the following wrap fee programs offered by CFI:

- **MMP:** ETF, Mutual Fund and Select Equity Models managed by Morningstar Investment Services LLC.
- **FlexUMA:** ETF, Mutual Fund and Multi-Manager Models offered by various approved TPMMs.

CFI conducts initial and ongoing investment due diligence on the managers and/or strategies available through these programs. In doing so, CFI considers a multitude of factors for offering portfolio models provided by the underlying managers and/or strategists available within these programs. Some of those factors include, but are not limited to, firm financial strength, firm reputation, assets under management, historical performance, portfolio attribution, current investment teams, portfolio manager tenure and additional services available to clients. The criteria for adding a manager and/or strategist to the applicable program or replacing a manager and/or strategist varies.

Ongoing due diligence reviews are completed at least annually and are focused at the TPMM firm and product levels. Firm-level review is utilized to understand if structural changes, such as ownership or management, have occurred at the TPMM firm. Product-level reviews are focused on, but not limited to, the portfolio or model investment strategies which are approved and made available. CFI requests Global Investment Performance Standards (“GIPS”)-compliant performance return data from TPMMs that can provide this data. In addition, CFI has other resources including a Bloomberg Terminal and access to other third-party research and investment due diligence staff.

### **Portfolios Managed by IARs**

IARs may act as the portfolio manager for the CLASSIC Plus Alpha, ABJ, Omega and FlexUMA wrap fee programs. When acting as the portfolio manager, IARs are not subject to the same selection and review process as TPMMs that are available through other programs. To become affiliated with CFI, an IAR must complete an IAR Agreement and IAR Code of Ethics and obtain any necessary licenses and/or registrations to be considered by the Firm. The IAR recommending the wrap fee program to the client receives compensation as a result of the client's participation in the program. Therefore, a conflict of interest may exist as the IAR may receive more compensation than if the client participated in other programs or paid separately for investment advice, brokerage and other services. This conflict is mitigated as CFI has placed a maximum advisory fee limit that an IAR may receive on an account based on the program selected.

### **Advisory Business**

When acting as the portfolio manager for a client's account, the services provided by an IAR primarily include, but are not limited to, the following:

- Analyzing the client's financial situation
- Investment management
- Asset allocation selection
- Ongoing account review and monitoring

Please refer to Item 4.A of this Wrap brochure for additional information on advisory business available through CFI.

### **Tailored Advisory Services**

While this Wrap Brochure discusses the general services offered through CFI, each individual client works with an IAR to determine the necessary advisory services to be provided based on the uniqueness of each client's investment objectives, goals, financial situation, risk tolerance and individual needs.

### **Wrap Fee Programs**

The fees paid for any associated wrap fee program cover the advisory fee, brokerage commissions and, depending on the specific program, other trading and transaction-based costs placed through the program's custodian. After consultation with a client, the IAR will assist in determining whether an advisory, commission or combination of advisory and commission arrangements is appropriate for the individual client's situation.

Through an advisory or fee-based arrangement, clients will generally pay an advisory fee that is a percentage of the

account's value, or a fixed fee per service, for ongoing professional guidance and advice instead of paying a commission for each transaction. In a commission-based arrangement, clients will pay a commission for each transaction, which can vary depending on the security, investment product or amount of the transaction, among other factors. CFI receives and retains a portion of the wrap fee for the Firm's services.

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

CFI and its IARs do not charge performance-based fees or participate in any side-by-side management for any wrap fee programs available through the Firm.

### **Methods of Analysis**

IARs may use various methods of analysis to determine an appropriate investment strategy for a client's portfolio. These methods of analysis may include, but are not limited to:

- **Fundamental Analysis:** Focuses on analyzing the value of a security by focusing on characteristics of the issuing company including its financial statements, earnings record, assets, liabilities, management team, industry competitors, market penetration and competitive advantages, among others. The value is then compared to the current price of the issuing company's security to determine whether to purchase, sell or hold the security.
- **Technical Analysis:** Focuses on analyzing market statistics and charting in order to make buy and sell decisions for a particular security. Technical analysis primarily involves studying charts and statistics of trading history, market activity, trading volume and statistics for the security being analyzed.
- **Bottom-Up Analysis:** Focuses on analyzing individual securities for their merits, such as valuation, management competence, pricing power and other unique characteristics of the stock and company. Bottom-up investment analysis focuses on an individual company rather than the industry or economy as a whole.
- **Top-Down Analysis:** Focuses on the overall economic, market and industrial trends before making a more granular analysis of specific industries or companies that have favorable outlooks.

Other types of investment analysis other than those noted herein may also be utilized. Clients are encouraged to discuss the specific methods of analysis directly with their IAR.

### **Investment Strategies**

IARs may use various investment strategies to help guide investment decisions for a client's account based on their individual objectives, goals, financial situation and risk tolerance, among other things. These methods of investment strategies may include, but are not limited to:

- **Diversification:** A risk management strategy that involves using a wide variety of non-correlated investments within a portfolio. Diversification seeks to reduce the overall investment risk and to avoid damaging the portfolio's performance by the poor performance of a single security or industry.
- **Dollar-Cost Averaging:** A strategy that involves buying a fixed dollar amount of securities at regularly scheduled intervals, regardless of the price per share. Dollar-cost averaging seeks to reduce the risk of incurring substantial losses resulting from investing a higher lump sum in securities at the high of the market before a downturn.

- **Asset Allocation:** A strategy that involves balancing risk versus reward by utilizing various asset classes such as stocks, bonds, mutual funds, alternatives, cash and other asset classes, as appropriate, based on an individual client's risk tolerance, goals, objectives and time horizon.

There is no guarantee that diversification, dollar-cost averaging, asset allocation or other investment strategy methods will protect against loss or ensure a profit.

## Risk of Loss

As with any method of analysis or investment strategy, various investment risks may be involved. Below are some of the most common types of investment risks:

- **Market risk:** The risk of investments declining in value because of economic developments or other events that affect the entire market. The main types of market risk are equity risk, interest rate risk and currency risk.
  - **Equity Risk:** The risk of loss due to a drop in the market price of shares.
  - **Interest Rate Risk:** The risk of loss due to a change in the interest rate.
  - **Currency Risk:** The risk of loss due to a movement in the exchange rate.
- **Liquidity Risk:** The risk of being unable to sell an investment at a fair price due to a lack of demand for the security being sold.
- **Concentration Risk:** The risk of loss because assets are concentrated in one investment or type of investment.
- **Credit Risk:** The risk that the government entity or company that issued the bond will run into financial difficulties and won't be able to pay the interest or repay the principal at maturity.
- **Reinvestment Risk:** The risk of maintaining favorable returns from reinvesting principal or income at a lower interest rate.
- **Inflation Risk:** The risk of a loss in purchasing power due to the value of the investment not keeping up with inflation.
- **Horizon Risk:** The risk that a client's investment horizon may be shortened because of an unforeseen event such as the loss of employment.
- **Longevity Risk:** The risk of outliving investments and savings.
- **Foreign Investment Risk:** The risk of loss when investing in foreign countries.

All methods of analysis and investment strategies have limitations. Therefore, performance results cannot be guaranteed, and past performance is no guarantee of future results. Methods of analysis and investment strategies rely on the assumption that the companies issuing the recommended securities, the rating agencies that review these securities and sources of public information about these securities are providing accurate and unbiased data. In general, these sources of information are believed to be reliable, however, there is always a risk that any analysis may be compromised by inaccurate or misleading information. **Investing in securities involves risk of loss that clients should be prepared to bear.**

## Voting Client Proxies

Clients may receive proxies and other solicitations directly from the custodian and/or transfer agent. CFI and IARs do not take any action or give any advice with respect to voting of proxies solicited by, or with respect to, the issuers of securities in which client accounts may be invested. In addition, CFI and IARs do not take any action, or give any advice, with respect to any securities held in any accounts that are named in or subject to class action lawsuits. CFI and IARs are required to forward any proxy materials, legal proceedings or other documents received involving any securities held in a client's account to the applicable client.

## Item 7: Client Information Provided to Portfolio Managers

The personal and financial information a client provides to CFI in order to open an account is accessible to the IAR on the account. This information is protected in accordance with the Firm's Privacy Policy & Practices ("Privacy Policy"), which is available on the CFI website at [www.CentaurusFinancial.com](http://www.CentaurusFinancial.com). The Privacy Policy can also be requested directly from the IAR on the account. Client data may be provided to other third parties associated with the account to enable the Firm to provide trading, aggregation, reporting, asset management or other applicable services necessary in order for the IAR to service the client's needs for the account. Any third party used is subject to security protocols in order to protect client data.

CFI requires, at minimum, annual contact and review between IARs and their clients who maintain an advisory account through CFI. Annual contact provides the opportunity for clients to discuss with their IAR and provide any updates related to their financial situation, investment goals and objectives, personal changes and other account information that may require a change in the overall management strategy of the advisory account.

## Item 8: Client Contact with Portfolio Managers

The IAR serves as the primary contact for any account-related questions and is reasonably available to advise clients as necessary regarding any account managed by the IAR directly or TPMM if applicable.

## Item 9: Additional Information

### Disciplinary Information

CFI is required to disclose any legal or disciplinary events material to a client's, or prospective client's, evaluation of the Firm's advisory business or the integrity of the Firm's management.

- In 2009, FINRA found that CFI failed to adequately safeguard certain customer information on a computer fax server, adequately respond to information that unauthorized persons had accessed the system, adequately investigate the scope of the unauthorized access, and sent inaccurate notification of the access to affected customers and representatives, thus failing to comply with Regulation S-P and FINRA rules 2010, 2011, 2211 and 3010. Without admitting or denying the findings, CFI paid a \$175,000 fine and implemented the requested corrections.
- In 2010, FINRA found that CFI did not report the correct time of trade to the Real-Time Transaction Reporting System (RTRS) for certain municipal securities transactions and also did not report certain transactions to the RTRS within fifteen (15) minutes as required by MSRB Rule G-14. Without admitting or denying the findings, CFI paid a \$10,000 fine and was required to revise the Firm's written supervisory procedures with respect to MSRB reporting.
- In 2011, the Nevada Securities Division alleged that CFI did not comply with one of the provisions of an



agreement it entered into regarding the supervision of one of its Registered Representatives by not notifying the Division in writing within ten (10) calendar days of a change in the Registered Representative's supervisor. Without admitting or denying the statement of facts and conclusion of law contained in the administrative order, CFI consented to the entry of the order and paid a \$5,000 fine to settle the matter.

- In 2014, FINRA found that CFI failed to comply with SEC Rule 17a-4(b)(4); FINRA Rule 2010; and NASD Rules 2210, 2211, 3010, 3010(a) and (d)3) and 3110(a). Five of CFI's Registered Representatives (wholesale Representatives) functioned as wholesalers for an unaffiliated investment management firm. Although CFI contracted to provide exclusive authority and control over the direction and supervision of the representatives in connection with wholesaling five of the investment management firm's fund private placements, CFI's Written Supervisory Procedures (WSPs) did not specifically address the supervision of wholesaling activities, and CFI did not properly supervise the wholesaling activities of the wholesale Representatives. Without admitting or denying the findings, CFI consented to a censure and paid a \$25,000 fine.
- In 2016, a FINRA industry review found that CFI failed to identify and apply certain sales charge discounts to certain customers' eligible purchases of Unit Investment Trusts (UITs). Without admitting or denying the findings, CFI paid a \$100,000 fine and paid \$85,281.62 back to all affected customers.
- In 2019, the Colorado Division of Securities alleged potential violations of various state and FINRA regulations related to the sale of structured CDs/notes to a limited number of Colorado residents. The matter was dismissed and the hearing vacated. Without admitting and expressly denying any wrongdoing or violations of any securities laws or regulations, the Firm entered into a negotiated Stipulated Agreement for Consent Order on April 22, 2020. The Agreement limits its ability to license certain representatives, assign certain supervisors, and recommend certain structured products in Colorado.
- On September 21, 2020, the Louisiana Department of Insurance alleged that the Firm did not disclose an administrative action on three licensing renewal applications and reported two administrative actions in violation of LA. R.S. 22:1554(A)(2) and LA. R.S. 22:1563(A) in an untimely manner. It should be noted that the Firm did not intentionally violate any reporting or disclosure rules. The information referenced in the allegation was appropriately and timely disclosed on the Firm's form BD, the Central Registration Depository and FINRA's BrokerCheck. Without admitting or denying any of the facts and/or conclusions of law contained in the administrative action, CFI was subject to the entry of an administrative action and a \$500.00 fine.
- On June 2, 2021, without admitting or denying the findings therein, CFI consented to the entry of an Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Section 15(b) of the Securities Exchange Act of 1934 and Sections 203(e) and 203(k) of the Investment Advisers Act of 1940, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order ("Order"). The proceedings and Order arose out of breaches of fiduciary duty by CFI, a dually-registered Investment Adviser and Broker-Dealer, in connection with its receipt of third-party compensation from client investments without fully and fairly disclosing its conflicts of interest. In spite of these financial arrangements, CFI provided no disclosure or inadequate disclosure of the multiple conflicts of interest arising from the Firm's receipt of third-party compensation. CFI also failed to adopt and implement written compliance policies and procedures reasonably designed to prevent violations of the Advisers Act and the rules thereunder in connection with its mutual fund share class selection practices, cash sweep revenue sharing and NTF revenue sharing, in violation of Sections 206(2) and 206(4) of the Advisers Act and Rule 206(4)-7. A complete copy of the Order can be found through the SEC's website at the following web address: <https://www.sec.gov/litigation/admin/2021/34-92095.pdf>. Pursuant to the Order, CFI was censured, subject to certain undertakings and required to pay disgorgement in the amount of \$907,377, prejudgment interest in the amount of \$124,019, and a civil monetary penalty of \$250,000.

## **Firm Registrations**

CFI is a SEC Registered Investment Adviser, FINRA member Broker-Dealer, and the principal owner is The Federation of Financial Services (“FFS”), owning more than 75% of CFI. The Firm’s affiliates include:

- Pacific Point Securities (“Pacific Point”), a FINRA member Broker-Dealer and managing Broker-Dealer. Pacific Point currently has no clients.
- Alpha Centauri Wealth Management (“ACWM”), an SEC Registered Investment Adviser. ACWM currently has no clients, affiliated IARs or assets under management or administration.

## **Management Personnel Registrations**

Management personnel of CFI have the following relationships, which may be considered material to their functions:

- Owners of CFI and its parent company, FFS, also own ACWM.
- Certain management personnel are separately licensed as Registered Representatives of CFI. These individuals, in their separate capacity, may effect securities transactions for which they may be compensated.
- Certain management personnel are separately licensed as Registered Representatives of Pacific Point Securities. These individuals, in their separate capacity, may supervise or effect securities transactions for which they may be compensated.
- Certain management personnel are licensed attorneys with the California State Bar. None of these individuals provide direct legal services to any non-employee-or non-family-related CFI clients.
- Certain management personnel are Real Estate Brokers licensed with the California Department of Real Estate. None of these individuals have any current clients in this capacity.
- Certain management personnel are separately licensed agents of various insurance companies. These individuals, in their separate capacity, may receive compensation resulting from the sale of insurance products to clients.
- Management personnel may also conduct business in other industries that could be considered material.

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

CFI has a Code of Ethics (“Code”) that sets forth standards of conduct that are expected of employees of CFI and IARs. The Code was designed to address conflicts of interest and promote ethical standards of compliance and requires persons associated with CFI to act with honesty, good faith and fair dealing in working with clients. In addition, the Code prohibits such associated persons from trading or otherwise acting on insider information. An IAR may purchase or sell the same security he or she recommends to a client. This creates a conflict of interest in that IARs may receive a better price than the client. The Firm’s Code places restrictions on IARs’ personal trading activities in order to mitigate this conflict. A copy of the Code can be requested by calling or emailing the Compliance Department at (800) 880-4234 or [cficompliance@cfiemail.com](mailto:cficompliance@cfiemail.com).

## **Review of Accounts**

In order to provide a high level of service and ongoing review, CFI requires, at minimum, annual contact and review between IARs and their clients who maintain an advisory account through CFI. Annual contact provides the opportunity for clients to discuss with their IAR and provide any updates on their financial situation, investment goals and objectives, personal changes and other account information that may require a change in the overall management strategy of the advisory account. IARs are required to complete and document this review on an annual basis and maintain that information in the client file.

## **Other Factors for Account Review**

More frequent reviews may be necessary based on variables such as changes to an individual client's personal or financial situation, the overall stock market, or the economic or political environment. Clients are responsible for and encouraged to notify their IAR anytime they have any material changes to their financial situation, investment goals and objectives, personal changes, or other related event that could impact the management of their advisory account. Clients should also contact their IAR any time they have any questions regarding their account in general.

## **Statements & Reporting**

Clients will receive an account statement at least quarterly from the custodian of the advisory program selected which contains the account balance, holdings, activity and other account-related information. Clients in the CLASSIC Plus program may also have access to quarterly performance reports noting fees, holdings, account performance and other account-related information. Clients should compare performance reports against statements received from the account custodian and should bring any inconsistencies or questions to the immediate attention of their IAR or CFI. Clients may also request specific account information from their IAR or CFI as necessary.

## **Client Referrals**

Centaurus may pay referral fees to other individuals for referring clients to CFI. The Firm requires these individuals to comply with applicable laws, rules and regulations related to solicitation activities, including any state rules requiring registration. Individuals with whom the Firm has a solicitor arrangement have a financial interest in referring clients to CFI and IARs, and receive a percentage of the advisory fee clients pay CFI. No additional fees are assessed when clients are referred to CFI. If a client is introduced to CFI or one of the Firm's IARs through a soliciting partner, clients will receive a separate written disclosure document that contains important information related to the solicitor arrangement. Clients should review this document carefully before opening an advisory account with CFI.

## **Other Compensation**

CFI receives compensation through strategic marketing arrangements with several third-party money managers. These payments are designed to compensate CFI for the cost of providing services, such as marketing and events, and therefore receipt of these funds indirectly benefits CFI representatives and creates a conflict of interest. Notably, CFI representatives do not directly receive any of the compensation paid to CFI from these strategic marketing arrangements.

IARs are also Registered Representatives of CFI, the Broker-Dealer. As such, IARs may recommend brokerage investment products and services outside of an advisory account and receive compensation for doing so. A conflict of interest exists between the IAR's duty to provide unbiased advice to clients and the potential receipt of fees or commissions on investment-related transactions effected through CFI, the Broker-Dealer. It is important for clients to consider the fees, level of service and investment strategies, among other factors, when selecting an IAR with whom to conduct business. IARs have a fiduciary duty to recommend investment products and services that the IAR believes are in the best interest of the client.

CFI participates in the TDA Institutional Program and CFI may recommend TD Ameritrade to clients for custody and brokerage services. There is no direct link between CFI's participation in the TDA Institutional Program and the investment advice it gives to its clients, although CFI receives economic benefits through its participation in the program that are typically not available to TD Ameritrade retail investors. These benefits include the following products and services (provided without cost or at a discount): receipt of duplicate client statements and confirmations; research-related products and tools; consulting services; access to a trading desk serving CFI participants; access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to client accounts); the ability to have advisory fees deducted directly from client accounts; access to an electronic communications

network for client order entry and account information; access to mutual funds with no transaction fees and to certain institutional money managers; and discounts on compliance, marketing, research, technology, and practice management products or services provided to CFI by third party vendors. TD Ameritrade may also have paid for business consulting and professional services received by CFI's related persons. Some of the products and services made available by TD Ameritrade through the TDA Institutional Program may benefit CFI but may not benefit its client accounts. These products Or services may assist CFI in managing and administering client accounts, including accounts not maintained at TD Ameritrade. Other services made available by TD Ameritrade are intended to help CFI manage and further develop its Business enterprise. CFI's clients do not pay more for assets maintained at TD Ameritrade as a result of its receipt of these services or products. However, CFI benefits from its participation in the TDA Institutional Program as the cost of these services would otherwise be borne directly by CFI. The benefits received by CFI or its personnel through participation in the TDA Institutional Program do not depend on the amount of brokerage transactions directed to TD Ameritrade. As part of Its fiduciary duties to clients, CFI endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the receipt of economic benefits by CFI or its related persons in and of itself creates a conflict of interest and may influence CFI's recommendation and/or choice of TD Ameritrade for custody and brokerage services. Clients should consider this conflict of interest when selecting TD Ameritrade.

CFI also receives from TD Ameritrade certain additional economic benefits ("Additional Services") that may or may not be Offered to any other independent investment Advisors participating in the TDA Institutional Program. Specifically, the Additional Services include payments for Orion Adviser Services, LLC. TD Ameritrade provides the Additional Services to CFI In its sole discretion and at its own expense, and CFI does not pay any fees to TD Ameritrade for the Additional Services. CFI and TD Ameritrade have entered into a separate agreement ("Additional Services Addendum") to govern the terms of the provision of the Additional Services.

CFI's receipt of Additional Services creates a conflict of interest. In providing Additional Services to CFI, TD Ameritrade most likely considers the amount and profitability to TD Ameritrade of the assets in, and trades placed for, CFI's client accounts maintained with TD Ameritrade. TD Ameritrade has the right to terminate the Additional Services Addendum with CFI, in its sole discretion. Consequently, in order to continue to obtain the Additional Services from TD Ameritrade, CFI may have an incentive to recommend to its clients that the assets under management by CFI be held in custody with TD Ameritrade and to place transactions for client accounts with TD Ameritrade. CFI's receipt of Additional Services does not diminish its duty to act in the best interests of its Cclients, including to seek best execution of trades for client accounts.

### **Financial Information**

CFI does not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance. Therefore, CFI is not required to provide an audited balance sheet for the most recent fiscal year.