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Sweep Program General Terms and Conditions



Centaurus Financial, Inc. (“CFI”) offers a sweep program which enables you to choose to automatically move uninvested credit balances in certain brokerage accounts to an interest-bearing money market mutual fund or FDIC insured bank deposit program.

The products available in this 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.

Using a Money Market Mutual Fund as a Sweep Vehicle

Money market funds are securities that may increase or decrease in value. In general, money market funds are designed and managed with the objective of capital preservation and maintenance of liquidity. Unlike bank deposits, an investment in a money market fund is not FDIC insured or guaranteed by any other government agency. Although money market funds seek to preserve a net asset value of $1.00 per share, there is no guarantee that this will occur. It is possible to lose money when investing in a money market fund, including loss of principal. Please thoroughly review the specific fund’s prospectus before investing.

Using a FDIC Insured Bank Deposit Program as a Sweep Vehicle

Currently, FDIC insurance covers both the principal and accrued interest in each bank account up to $250,000 per depositor, for each FDIC-member bank where money is deposited. Bank deposit programs employ a multi-bank investment approach. To ensure that balances receive full FDIC coverage, these programs generally limit the principal amount deposited at any one institution. There is also an aggregate coverage limit generally placed on combined accounts. It is possible to lose coverage if the depositor has deposits outside of the program at any of the banks included in the program. At the time funds are deposited with one or more Banks through the bank deposit program, your deposits in the Program are eligible, subject to certain limitations, to be insured, up to applicable limits, by the Federal Deposit Insurance Corporation (the “FDIC”) and are no longer eligible for SIPC protection. Funds in the deposit accounts at each Bank are generally eligible for deposit insurance by the FDIC up to a total of $250,000 principal and accrued interest per depositor in most insurable capacities (e.g., individual, joint, etc.) when aggregated with all other deposits held in the same insurable capacity at a Bank. For example, funds in the Deposit Accounts at a Bank held by an individual are insured up to $250,000, and funds in the Deposit Accounts at a Bank held in joint accounts up to $500,000. For IRAs and Section 457 Plans, funds in the Deposit Accounts at each Bank are eligible for deposit insurance up to $250,000 principal and accrued interest per depositor in the aggregate.

For additional information on account eligibility, product availability or specific product terms, please contact your financial professional.

Further Information and Conflicts of Interest Related to Sweep Program

The products available and the terms and conditions 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 herein as well as 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.

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 customer’s free credit balance generally originates from cash deposits, 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 money each month in the form of a withdrawal, invest the money, allow the cash to sit idle as a free credit balance where it will earn no interest or they may direct our firm to invest and/or deposit the money into eligible cash sweep products in order to maximize the potential to earn an additional return while the cash sits idle.

If a client selects a cash sweep option, CFI offers its customers a “Sweep Program” pursuant to which you 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 brand-new account with us, you will be provided with a Client Agreement/New Account Form and will be asked to select whether you would like your account to participate in the cash sweep program and, if selected, whether you would like to utilize a bank deposit program or money market mutual fund as your default sweep option. Upon executing the Client Agreement, you appoint our clearing firm, Pershing, LLC, as your authorized agent to establish and maintain your sweep accounts. You may contact your Financial Professional at any time to opt out of participating in the Cash Sweep Program. Once opted out, any cash deposits will remain as “Free Credit Balances” and will not earn interest nor be covered by FDIC insurance (but will be eligible as cash covered by SIPC).

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 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 sweep program, Pershing usually receives remuneration that comes out of the operating expenses of the money 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 sweep program. For the money market fund option, CFI may be entitled to receive up to 55 basis points, or .55%, of the assets held in the money market fund by CFI clients. The money market funds participating in the 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 Centaurus, 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 Centaurus 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 customers 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 customer 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 investor. This distribution assistance is in addition to the advisory fee that CFI and its financial professionals may receive in connection with such balances pursuant to the client’s advisory contract. CFI’s retail financial advisers do not receive any additional compensation based on assets held in the 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 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 sweep program. In order to ensure the quality of the product being offered and the suitability of the product for a retail investor, CFI limits the money market funds available for its 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 investor. The foregoing conflicts of interest are mitigated under our policies and procedures that have been adopted for this purpose, but not eliminated. Specifically, retail financial advisers who make investment recommendations for your account do not receive any economic benefit from the distribution assistance payments described herein, therefore, they have no financial incentive to recommend that you hold assets in a cash sweep account as opposed to other investment options. In terms of the money market fund or 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 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 sweep program (which may be subject to standard transaction costs and fees depending on the type of account). In addition, if you intend to hold large amounts of cash or cash equivalents for a prolonged period of time that you do not intend to invest in other types of securities or investment options, you should discuss this with your financial adviser and explore available options in addition to the limited options made available in the sweep program.