



## Part 2A of Form ADV: Firm Brochure

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

2300 E. Katella Ave., Suite 200

Anaheim, CA 92806

(800) 880-4234

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

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This Firm Brochure ("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 Brochure, please contact us at (800) 880-4234 or [cficompliance@cfiemail.com](mailto:cficompliance@cfiemail.com).

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. 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 Brochure since the last annual update. The 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 Brochure, depending on the extent of those changes.

### Obtaining a Copy of the Brochure

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

1. Contact the Investment Adviser Representative (“IAR”) with whom you are working;
2. Download the 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 Brochure from the CFI website at <https://www.centaurusfinancial.com/803adv/>

### Summary of Material Changes

The following is a summary of material changes since the last update of the Brochure on **July 28, 2023**:

**There have been no material changes since our last update.**

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## Item 4: Advisory Business

### A. Description of the Advisory Firm

CFI is a Registered Investment Adviser with the SEC, and Broker-Dealer, member FINRA and SIPC. CFI commenced operations in 1992 with the corporate headquarters being located in Anaheim, California. The principal owner of CFI is the Federation of Financial Services (“FFS”), owning more than 75% of the Firm. CFI offers a variety of advisory services through Investment Adviser Representatives (“IARs”) who are associated with the Firm. IARs are independent contractors who are registered to provide advisory services through CFI. IARs are also Registered Representatives of CFI and may also be licensed insurance agents.

### B. Advisory Services Offered

The services provided by IARs primarily include financial planning and consulting, asset allocation, investment management and the utilization of Third-Party Money Managers (“TPMMs”) to manage client assets as deemed appropriate. 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 Programs**

CLASSIC Plus is a fee-based advisory program through which 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 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. Supplementary disclosure documents required in our industry, such as your IAR’s educational and professional background (“Form ADV Part 2B”) and a shorter summary of the Firm’s services (“Form ADV Part 3”), among others, will accompany a new client’s advisory agreement.

- **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 CFI 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 multiple custodians. FlexUMA features investment overlay manager Adhesion Wealth Advisor Solutions (“Overlay Manager”). 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 Manager, or any other third-party strategist and/or third-party manager (collectively, “Third-Party Service Providers”), 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 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 applicable custodian to follow instructions given by the IAR, CFI or Overlay Manager 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 Manager 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 Manager does not provide general tax advice, tax return preparation or tax-planning services. Overlay Manager 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 Manager will seek to avoid short-term capital gains where possible, but long-term gains are not limited unless the client has requested a mandate to limit realized long-term capital gains.

Overlay Manager 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 Manager 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, client will consult with their IAR and enter into an agreement with CFI 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 various custodians 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 might 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, if necessary, 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 Manager 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 Manager, as of the valuation date, at the closing price on the principal exchange on which it is traded, or as determined by Orion and/or Overlay Manager. Any other security or investment in the account will be valued based on prices obtained or provided by Orion and/or Overlay Manager.

- **Third-Party Money Management (TPMM) Programs**

IARs may also recommend the services of approved TPMM programs. These programs are typically managed on a discretionary basis, and each TPMM may offer different types of investment programs and/or services. TPMM programs offer access to a variety of investment portfolio models and strategies with varying levels of risk. After consultation with their IAR, a client may select a TPMM investment management program appropriate for their objectives, goals, financial situation and risk tolerance. Clients will then enter into a separate investment advisory agreement with the TPMM for those services. TPMMs are separately owned and operated Registered Investment Advisers and are not affiliated with CFI.

- **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 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.

We are making investment recommendations to you regarding your retirement plan account or individual retirement account as 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 or otherwise are compensated creates some conflicts with your financial interests, so we operate under a special rule that requires us to act in your best interest and not put our interest ahead of yours.

Under this special rule’s provisions, we must:

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

#### • **Financial Planning and Consulting Services**

CFI provides clients with a broad range of financial planning and consulting services which may include, but are not limited to:

- Investment Planning
- Retirement Planning
- Income Planning
- College Planning
- Estate Planning
- Business Planning
- Insurance Planning
- Health/Medical Planning
- Social Security Planning

After consultation with their IAR, a client may request financial planning and consulting services appropriate for their financial situation and will enter into a financial planning and consulting services agreement with CFI for those services. The IAR will gather information regarding the client’s investment objectives and financial situation, which may include current investments and assets, tax status, insurance coverage, liquidity, risk tolerance, retirement goals, time horizon and estate needs, among other things. After completion of the fact-gathering process, the IAR will use the data to develop recommendations and will present them to the client.

#### • **Other Professional Services**

In addition to financial planning and consulting, some IARs may be licensed or able to provide other professional services such as legal, real estate or accounting services. Such services, if provided to the client, will be provided under a separate agreement and are not related to any services provided through CFI.

### **C. Tailored Advisory Services**

While this 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 unique requirements of each client's investment objectives, goals, financial situation, risk tolerance and needs.

### **D. 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. (Please refer



to the next section, Item 5.A, for more details regarding cost.) CFI receives and retains a portion of the wrap fee for the Firm’s services.

## E. Assets Under Management

As of **04/30/24**, CFI had the following amount of Assets Under Management (“AUM”) on a discretionary and non-discretionary basis.

- **\$2,057,264,492.00** on a discretionary basis
- **\$4,219,635,428.00** on a non-discretionary basis

## Item 5: Fees and Compensation

### A. Advisory Services Fees – CLASSIC Plus Programs

CFI makes available several fee-based advisory programs through which IARs manage client accounts or, depending on the program selected, clients may choose from approved TPMMs to manage their assets within an account. After consultation with their IAR, a client may select a program appropriate for their objectives, goals, financial situation and risk tolerance and will enter into an investment advisory agreement with CFI for those services. 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%
Beta (N1W)	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%
AA & VL	Monthly or Quarterly in Arrears or Advance	Issuing Insurance Company	\$25,000	1.50%
Omega	Monthly in Arrears	Charles Schwab & Co.	\$25,000	2.25%
FlexUMA	Monthly in Arrears	Charles Schwab & Co. / Pershing LLC	\$0	2.25%
Delta	Monthly in Arrears	Charles Schwab & Co.	\$25,000	2.25%
Adviser-Directed	Monthly in Arrears	Plan Custodian	\$25,000	1.35%

In addition to the advisory fee, depending on the program selected, additional charges such as transaction charges, 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 advisory 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.

### **Minimum Account Value**

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.

### **Advisory Annuity & Variable Life Management**

An IAR, in the capacity of a Registered Representative of CFI, the Broker-Dealer, may have sold the annuity or variable life policy to the client and received a commission prior to entering into an advisory agreement. In such cases, CFI mitigates this conflict, as IARs are generally prohibited from charging an advisory fee for managing the annuity or variable life sub-accounts for a period of at least twelve months from the date of purchase. In some cases, fees for managing the sub-accounts may be deducted directly from the variable annuity or variable life policy. Fee deductions are generally considered distributions, and may affect the variable annuity or variable life policy terms and may have adverse tax consequences. Clients are highly encouraged to consult with their CPA or Tax Adviser regarding any tax ramifications related to fee deductions and/or distributions from an annuity or variable life policy.

Given the complexity of many annuity and variable life policies, including elected guarantees and/or riders, internal management fees and surrender charges, among other things, clients should discuss the contract terms of their annuity or variable life policy with their IAR to determine the impact that fee deductions will have on contract terms. Clients may receive an invoice for payment of fees, or, subject to certain restrictions, elect to have the fees deducted from the annuity or variable life policy, or a different account.

### **Third-Party Money Management (TPMM) Programs**

Advisory fees paid by clients who invest in TPMM programs are negotiable subject to each TPMM's stated advisory and investment management fee ranges. Advisory fees are generally paid either quarterly or monthly in advance or in arrears depending on the program selected. The advisory fee payment method and calculations are outlined in the advisory agreement directly with the TPMM. In general, TPMM advisory fees range from 1.00% to 3.00% and are based on the size of the account, complexity of the investment strategy and underlying investments, among other factors. In addition to the TPMM, CFI and the IAR receive a portion of the advisory program fee for services and the referral. It is important that clients review the Form ADV Part 2A Brochure for the TPMM program selected and other disclosure documents prior to or at the time of opening an account with a TPMM to review all applicable fees.

### **Retirement Plan Fees**

CFI is deemed to be a fiduciary under the Employee Retirement Income Security Act of 1974 ("ERISA") when providing advice to covered retirement plans or plan participants. As such, CFI is subject to certain obligations and duties under ERISA. Depending on the program option selected, account fees may be billed either in advance or in arrears subject to the same fee table and parameters as noted above. Program fee information is also disclosed in the appropriate investment advisory agreement and Plan documents.

### **Financial Planning and Consulting Services**

Fees for financial planning and consulting services are determined based on the nature of the services provided and

the complexity of the individual client's circumstance. Fees for financial planning and consulting services are negotiable, and a client has no obligation to implement financial planning and consulting recommendations through CFI or the IAR. If the client chooses to implement any of the recommendations through CFI, implementation will be under a new and separate agreement apart from the financial planning and consulting services agreement and fee for those services. CFI and the IAR may not accept pre-payments of \$1,200 or more for services that cannot be completed within six months.

## **B. Billing of Advisory Fees**

Pursuant to the applicable investment advisory agreement and program selected, fees may be prorated and charged monthly or quarterly for the applicable period in advance or in arrears as noted above in Item 5.A. This is generally determined by the program selected and not by the client or IAR. Depending on the program, fees are typically deducted directly from the advisory account. In some instances, where a direct fee deduction from the account is not possible, a bill may be generated separately for the advisory fees on an account.

## **C. Other Fees in Connection With Advisory Services**

Depending on the advisory program selected, additional charges such as transaction fees, custodial fees, transfer fees, qualified account fees, internal fund expenses and exchange fees may be assessed against the account. These charges are separate and apart from the annual advisory fee assessed against the account. Information regarding any such charges is available in the custodial fee schedule, prospectus or other document for the particular security or party assessing the charge. Please refer to the investment advisory agreement of the program selected for more details relating to any additional fees or expenses associated with the program. 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. Clients are encouraged to review the specific investment prospectus for additional information relating to internal expenses. Please also refer to Item 5.A above and Item 12 below for additional information on brokerage practices.

## **D. Advisory Agreement Termination & Refunds**

Depending on the advisory program selected, advisory fees may be billed and deducted in advance. Investment advisory agreements may be terminated at any time by CFI or the client, upon written notice, and subject to the terms of the investment advisory agreement of the program selected. Any prepaid unearned fees will be prorated from the billing date to the date of termination. Refunds will be made promptly to the client within a reasonable time, generally within thirty days from the date of termination.

## **E. Other Compensation**

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 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 for which 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 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 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, the client appoints our clearing firm, Pershing, as their authorized agent to establish and maintain their sweep accounts. The client may contact their 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 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 holds 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 time frame. 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 IARs to advocate that clients 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 IARs, 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 of 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.

## Item 6: Performance-Based Fees

CFI and its IARs do not charge performance-based fees. However, some TPMMs may offer advisory programs that charge performance-based fees. It is important that clients review the Form ADV Part 2A Brochure for the TPMM program selected and other disclosure documents prior to opening an account with a TPMM that charges performance-based fees.

## Item 7: Types of Clients

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. Typically, the minimum account value to open a CLASSIC Plus account is \$25,000, but it could be higher or lower depending on the program selected. Minimum account values to open an account directly with a TPMM vary.

## Item 8: Methods of Analysis, Investment Strategies and Risks of Loss

### 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 its 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 avoid damaging the portfolio's performance through 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 others, as appropriate, based on an individual client's risk tolerance, goals, objectives and time horizon.
- **Asset Location:** A strategy that involves placing investments in the most tax-efficient accounts, relative to the client's unique objectives, to maximize after-tax returns. Some of the client's goals may be best served by locating funds in a taxable account, while other goals would be better pursued via tax-deferred or tax-exempt accounts.

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.**

## Item 9: 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 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.
- In 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.

- In February of 2023, without admitting or denying the findings therein, CFI consented to the Securities and Exchange Commission's ("SEC") sanctions and to its findings that certain Registered Representatives from a CFI Branch Office (the "CFI RRs") recommended Variable Interest Rate Structured Products to certain retail customers for whom such investments were unsuitable in light of each of the specific customers' financial situations and needs (the "Specified Customers"). By making such recommendations, the CFI RRs and CFI violated Sections 17a(2) and 17a(3) of the Securities Act, and the Branch Manager/Registered Principal of CFI RRs failed to reasonably supervise the CFI RRs. The SEC also found that CFI failed to make and keep certain required records relating to certain customer accounts. In some instances, CFI failed to maintain and preserve this information for at least six years in violation of the Exchange Act Section 17a and Rule 17a-4(e)(5). Pursuant to the SEC's Order, CFI was censured, subject to certain undertakings, and required to pay disgorgement/restitution, prejudgment interest and a civil penalty. 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/2023/33-11153.pdf>.
- In February of 2023, without admitting or denying the findings therein, CFI consented to the Securities Commissioner of South Carolina's ("SCSC") sanctions and to its findings that CFI and certain South Carolina Registered Representatives ("CFI RRs") recommended Steepeners and/or Corporate Bonds to certain customers without reasonable grounds to believe that such investments, in the amount purchased, would be suitable for those customers, in violation of S.C. Code of Regulations §13-501a(3). SCSC found that CFI failed to reasonably supervise certain CFI RRs in connection with the Steepener transactions, which led to CFI RRs making unsuitable recommendations that, at times, resulted in exceeding the concentration limits of the South Carolina Branch Office Written Supervisory Procedures in violation of S.C. Code of Regulations §13-501a(3). Pursuant to the SCSC's Order, CFI was censured, subject to certain undertakings, and required to pay a civil penalty as well as costs incurred by SCSC. A complete copy of the Order can be found through the SCSC's website at the following web address: <https://www.scag.gov/media/obqf43yw/2023-02-06-centaurus-mantei-et-al-consent-order-matter-no-20191562-03211577xd2c78.pdf>.
- In May of 2023, without admitting or denying the findings therein, CFI consented to FINRA's sanctions and to its findings that CFI failed to reasonably supervise a Registered Representative's recommendations. The findings stated that the Registered Representative's direct supervisor failed to conduct any suitability review to determine if his recommendations of standard version Unit Investment Trusts to his customers were suitable in light of the fact that identical, lower cost fee-based units were available. Similarly, the supervisor did not review whether the Registered Representative's recommendations to purchase alternative investments through CFI were suitable where investment advisory customers were eligible to purchase those investments without a commission.

## Item 10: Other Financial Industry Activities and Affiliations

### Firm Registrations

CFI is an 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 below related persons are under common control with CFI:

- Pacific Point Securities ("Pacific Point"), a FINRA member Broker-Dealer and managing Broker-Dealer. Pacific Point currently has no clients.
- Centaurus Insurance Services, Inc.
- Centaurus Texas, Inc.
- CFI New Mexico, Inc.
- CGM Risk Management and Insurance Services, LLC

## Management Personnel Registrations

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

- 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. 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.

## Item 11: 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).

## Item 12: Brokerage Practices

### A. Selection and Recommendation of Broker-Dealers

CFI is both a FINRA-registered introducing Broker-Dealer and an SEC Registered Investment Adviser. In general, CFI does not utilize other introducing Broker-Dealers for trade execution or brokerage services, with the exception of accounts held at Charles Schwab & Company, Inc. (Charles Schwab & Company, Inc. acts as the registered Broker-Dealer for these accounts). CFI makes every effort to provide clients with the most timely and cost-effective trade executions and brokerage services. CFI does not maintain custody of your assets, although we may be deemed to have custody of your assets if you give us authority to withdraw assets from your account (see Item 15—Custody, below). Your assets must be maintained in an account at a “qualified custodian,” generally a Broker-Dealer or bank. While clients are free to execute trades through any Broker-Dealer they choose, CFI generally executes and clears account transactions through the following custodians, depending on the CLASSIC Plus program selected:

- **Pershing LLC**, a subsidiary of The Bank of New York Mellon Corporation, One Pershing Plaza, 4th Floor, Jersey City, NJ 07399 (“Pershing”)
- **Charles Schwab & Company, Inc.**  
1945 Northwestern Drive, El Paso, TX 79912 (“Schwab”)

CFI is independently owned and operated and is not affiliated with Schwab or Pershing. Schwab or Pershing will hold your assets in a brokerage account and buy and sell securities when instructed to. While we recommend that you use

Schwab or Pershing as custodian/broker, you will decide whether to do so and will open your account with Schwab or Pershing by entering into an account agreement directly with them. Conflicts of interest associated with this arrangement are described below as well as in Item 14 (Client referrals and other compensation). You should consider these conflicts of interest when selecting your custodian.

Even though your account is maintained at Schwab or Pershing, and we anticipate that most trades will be executed through these custodians, we can still use other brokers to execute trades for your account as described below.

### **How we select brokers/custodians**

When considering whether the terms that Schwab or Pershing provides are, overall, most advantageous to you when compared with other available providers and their services, we take into account a wide range of factors, including:

- Combination of transaction execution services and asset custody services
- 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 available investment products (stocks, bonds, mutual funds, exchange-traded funds [ETFs], etc.)
- Availability of investment research and tools that assist us in making investment decisions
- Quality of services
- Competitiveness of the price of those services (commission rates, margin interest rates, other fees, etc.) and willingness to negotiate the prices
- Reputation, financial strength, security and stability
- Prior service to us and our clients
- Services delivered or paid for by Schwab or Pershing
- Availability of other products and services that benefit us, as discussed below (see “Products and services available to us from Schwab or Pershing”)

### **Your brokerage and custody costs**

We are not required to select the broker or dealer that charges the lowest transaction cost, even if that broker provides execution quality comparable to other brokers or dealers. Although we are not required to execute all trades through Schwab or Pershing, we have determined that having Schwab or Pershing execute most trades is consistent with our duty to seek “best execution” of your trades. Best execution means the most favorable terms for a transaction based on all relevant factors, including those listed above (see “How we select brokers/custodians”). By using another broker or dealer you may pay lower transaction costs.

Approved TPMMs offered through CFI utilize non-affiliated Broker-Dealers. These Broker-Dealers are chosen directly by the applicable TPMM. Account transactions for the CLASSIC Plus VA and VL programs are executed directly through the issuing insurance company and their designated custodian.

## **B. Research and Other Soft Dollar Arrangements**

### **Products and services available to us from Schwab, Pershing and other custodians, TPMMs, insurance carriers and/or product sponsors.**

The above custodians, TPMMs, insurance carriers and/or product sponsors (collectively known as “Service Providers”) provide us and our clients with access to their institutional brokerage services (trading, custody, reporting, and related services). Service Providers also make 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. Service Providers’ support services are generally available on an unsolicited basis (we don’t have to request them) and at no charge to us. Following is a more

detailed description of these support services:

Services that benefit you. Service Providers' 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 Service Providers include some to which we might not otherwise have access or that would require a significantly higher minimum initial investment by our clients. Service Providers' services described in this paragraph generally benefit you and your account.

Services that do not directly benefit you. Service Providers also make available to us other products and services that benefit us but do not directly benefit you or your account. These products and services assist us in managing and administering our clients' accounts and operating our firm. They include investment research, both Service Providers' own and that of third parties. We use this research to service all or a substantial number of our clients' accounts. In addition to investment research, Service Providers also make available software and other technology that:

- Provides access to client account data (such as duplicate trade confirmations and account statements)
- Facilitates trade execution and allocates aggregated trade orders for multiple client accounts
- Provides pricing and other market data
- Facilitates payment of our fees from our clients' accounts
- Assists with back-office functions, recordkeeping and client reporting

Services that generally benefit only us. Service Providers also offer other services intended to help us manage and further develop our business enterprise. These services include:

- Educational conferences and events
- Consulting on technology and business needs
- Consulting on legal- and compliance-related needs
- Publications and conferences on practice management and business succession
- Access to employee benefits providers, human capital consultants and insurance providers
- Marketing consulting and support
- Recruiting and custodial search consulting

Service Providers provide some of these services themselves. In other cases, they will arrange for third-party vendors to provide the services to us. Service Providers also discount or waive their fees for some of these services or pay all or a part of a third party's fees. Service Providers also provide us with other benefits, such as occasional business entertainment of our personnel. If you did not maintain your account with one or more Service Providers, we would be required to pay for those services from our own resources.

The availability of these services from Service Providers benefits us because we do not have to produce or purchase them. We don't have to pay for these services. Service Providers have also agreed to pay for certain technology, research, marketing and compliance consulting products and services on our behalf. These services are not contingent upon us committing any specific amount of business to Service Providers in trading commissions or assets in custody. The fact that we receive these benefits from Service Providers is an incentive for us to recommend the use of Service Providers rather than making such a decision based exclusively on your interest in receiving the best value in custody services and the most favorable execution of your transactions. This is a conflict of interest.

We believe, however, that taken in the aggregate our selection of Service Providers is in the best interests of our clients.

### **C. Brokerage for Client Referrals**

CFI does not consider, when selecting or recommending Broker-Dealers, whether CFI or a related person receives client referrals from a Broker-Dealer or third party.

## **D. Directed Brokerage**

CFI does not routinely recommend, request or require that clients direct the Firm to execute transactions through a specified Broker-Dealer. In general, the option is unavailable to direct securities transactions to other Broker-Dealers or account custodians.

For any instance when a direct brokerage request is approved for the use of another Broker-Dealer for execution of securities transactions, CFI may be unable to achieve the most favorable execution for a client's transaction.

Directing brokerage may cost a client more in brokerage commissions and transaction costs as CFI may be unable to negotiate costs and lose the ability to aggregate orders to reduce transaction costs.

## **E. Block Trading and Aggregation of Orders**

An IAR that is approved for discretion may make block trades for multiple clients. Block trading allows the IAR to aggregate the purchase or sale of securities for various client accounts in order to achieve a more favorable execution for client transactions. For circumstances when a client's order is aggregated with other client orders, shares of the security will be distributed to those clients participating in the block trade in a fair and equitable manner. The distribution of shares purchased is typically proportionate to the size of the account and is not based on account performance or the amount or structure of advisory fees.

Subject to the IAR's discretion regarding market conditions, when orders are combined, each participating account pays an average price per share for all transactions and pays a proportionate share of all transaction costs. Accounts owned by associated persons of CFI may participate in block trading with client accounts; however, these associated persons will not be given preferential treatment of any kind.

## **Item 13: Review of Accounts**

### **A. Account Review**

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 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. IARs are required to complete and document this review on an annual basis and maintain that information in the client file.

### **B. 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 notifying their IAR any time they have any material changes to their financial situation, investment goals and objectives, personal changes, or other related events 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.

### **C. Statements & Reporting**

Clients will receive an account statement at least quarterly from the custodian of the advisory program selected that 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, if needed, 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.

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

### **Client Referrals**

CFI 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 which 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.

We receive an economic benefit from Service Providers in the form of the support products and services they make available to us and other independent investment advisors whose clients maintain their accounts at Service Providers. You do not pay more for assets maintained at Service Providers as a result 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 Service Providers, how they benefit us, and the related conflicts of interest are described above (see Item 12 – Brokerage Practices).

## **Item 15: Custody**

CFI does not maintain physical custody of client assets. Depending on the advisory program selected, clearing and custody services for CLASSIC Plus program accounts are offered through Pershing, Schwab or directly with the underlying issuing insurance company in the case of variable annuity or variable life policies. The custodian will send account statements to clients at least quarterly. Account statements include a summary of all transactions, all deposits and withdrawals, all fees and expenses, and the value of the account at the beginning and end of the stated time period. Clients should review these statements carefully.

In addition to account statements provided by the custodian, CLASSIC Plus clients may also have access to quarterly performance reports, depending on the program selected. These reports provide information regarding 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, if necessary, bring any inconsistencies or questions to the immediate attention of their IAR or CFI.

## **Item 16: Investment Discretion**

CFI offers advisory services on a discretionary and non-discretionary basis. With discretion, a client appoints the IAR as attorney-in-fact through a discretionary investment advisory agreement with respect to such trading authorization. Pursuant to such authorization an IAR may, in their sole discretion, without prior consent of client and at client's risk, purchase, sell or otherwise trade the securities and investments in the account. Discretionary trading authority does not allow CFI or the IAR to withdraw funds or take custody of client funds or securities. A client may revoke discretionary authority at any time by providing notice to CFI or the IAR. Upon receipt of a revocation notice, discretionary authority will be revoked and the account will be managed in a non-discretionary manner, which requires express consent in advance to trades made in a client's account. For non-discretionary accounts, clients are under no obligation to accept any recommendations, and clients retain sole discretion over the investments to be purchased and sold in the account.

With the FlexUMA program, Overlay Manager generally acts as agent and attorney-in-fact with authority to act on behalf of the account and therefore has investment discretion. This means that Overlay Manager has the authority, within the limits of instructions from CFI or the IAR, to determine, without obtaining client consent, the securities to be bought or sold, and the amount of securities to be bought or sold. Material limitations on Overlay Manager's authority exist by, among other things, (i) the investment instructions provided by the IAR through CFI, (ii) the model portfolios, strategies and related instructions provided by Third-Party Services Providers selected, (iii) the custodian selected for the account and (iv) the fiduciary responsibility of the IAR and CFI as described in this Brochure. Discretionary trading authority does not allow Overlay Manager, CFI or the IAR to withdraw funds or take custody of client funds or securities.

## **Item 17: 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 your client account balances are 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 18: 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.