Compliance and Supervisory Procedures Manual

RIA Edition

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Procedures may be updated, revised or clarified through the publication of IA Compliance Communications (“IA CC”), which are available at [www.thesfa.net](http://www.thesfa.net).

<table>
<thead>
<tr>
<th>Identifier</th>
<th>Title</th>
<th>Publication Date</th>
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<tbody>
<tr>
<td>IA CC 14-01</td>
<td>Form ADV Part 2A Disclosure Brochure Updates</td>
<td>9/25/2014</td>
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<tr>
<td>IA CC 15-01</td>
<td>The Strategic Choice Account Program</td>
<td>2/10/2015</td>
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<tr>
<td>IA CC 15-02</td>
<td>Solicitor’s Arrangements</td>
<td>4/6/2015</td>
</tr>
<tr>
<td>IA CC 15-03</td>
<td>Strategic Choice Program Accounts: Request for Information</td>
<td>4/27/2015</td>
</tr>
<tr>
<td>IA CC 15-04</td>
<td>Updated ADV Part 2A Appendix 1 Strategic Choice Program Brochure</td>
<td>7/1/2015</td>
</tr>
<tr>
<td>IA CC 15-05</td>
<td>Financial Planning and Consulting Services</td>
<td>8/24/2015</td>
</tr>
<tr>
<td>IA CC 15-06</td>
<td>Strategic Choice Program: Discretionary Authority</td>
<td>8/24/2015</td>
</tr>
<tr>
<td>IA CC 16-01</td>
<td>Form ADV and Strategic Choice Account Updates</td>
<td>3/31/2016</td>
</tr>
<tr>
<td>IA CC 16-02</td>
<td>Use of Alternative Investments in Managed Accounts</td>
<td>3/31/2016</td>
</tr>
<tr>
<td>IA CC 16-03</td>
<td>Use of Alternative Investments in Managed Accounts Revisited</td>
<td>8/29/2016</td>
</tr>
<tr>
<td>IA CC 16-04</td>
<td>New Financial Planning Client Information Form Replaces Full Client Account Form</td>
<td>8/30/2016</td>
</tr>
<tr>
<td>IA CC 16-05</td>
<td>Mutual Fund Share Classes in Managed Accounts</td>
<td>11/20/2016</td>
</tr>
<tr>
<td>IA CC 17-01</td>
<td>Form ADV and Strategic Choice Account Updates</td>
<td>4/9/2017</td>
</tr>
<tr>
<td>IA CC 17-02</td>
<td>Authorization for Deducting Consulting and Financial Planning Fees from Client Accounts</td>
<td>4/12/2017</td>
</tr>
<tr>
<td>IA CC 17-03</td>
<td>The Strategic Choice Agreement Exhibit B - Additional Services</td>
<td>7/10/2017</td>
</tr>
<tr>
<td>IA CC 17-04</td>
<td>Annual Review Form</td>
<td>7/10/2017</td>
</tr>
<tr>
<td>IA CC 17-05</td>
<td>C-Share Mutual Fund Program</td>
<td>7/10/2017</td>
</tr>
</tbody>
</table>
# Table of Contents

| Introduction | .......................................................... | 5 |
| SFA’s Compliance with the Investment Advisers Act of 1940 | .................................................. | 6 |
| Responsibilities and Qualifications of SFA’s Chief Compliance Officer | ........................................ | 7 |
| **Chapter 1** Filings and Reports | | |
| 1.2 Registration of SFA with the Commission | | 8 |
| **Chapter 2** Form ADV/Brochure Disclosure and Delivery | | |
| 2.1 SFA’s Written Disclosure Statement | | 8 |
| 2.2 Delivery of Form ADV | | 9 |
| 2.3 Amendments to Form ADV – Rule 204-1 | | 9 |
| 2.4 Disciplinary and Custody Related Disclosures | | 9 |
| **Chapter 3** Client Agreements/Contracts – Section 205 | | |
| 3.1 General | | 10 |
| 3.2 Privacy of Client Financial Information (Regulation S-P) | | 10 |
| 3.3 Delivery of SFA’s Privacy Notice | | 10 |
| 3.4 Arbitration Clauses in Advisory Agreements | | 10 |
| **Chapter 4** Custody of Client Funds and Securities – Amended Rule 206(4)-2 | | |
| 4.1 Amended Rule 206(4)-2 | | 11 |
| 4.2 Direct Client Billing vs. Billing the Account Custodian/Broker for Advisory Fees | | 12 |
| 4.3 Delivery of Account Statements to Clients | | 12 |
| 4.4 Amendments to Form ADV | | 13 |
| 4.5 SFA’s Compliance with Amended Rule 206(4)-2 | | 13 |
| **Chapter 5** Books and Records – Rule 204-2 | | |
| 5.1 Responsibility for Preparation and Maintenance | | 13 |
| 5.2 Accounting and Financial Records | | 14 |
| 5.3 Accrual Basis | | 14 |
| 5.4 Record Preservation | | 14 |
| 5.5 Specific Books and Records to be Prepared and Maintained | | 14 |
| 5.6 Cash Receipts and Disbursement Journal – Rule 204-2(a)(1) | | 14 |
| 5.7 General Ledger – Rule 204(a)(2) | | 14 |
| 5.8 Order Tickets/Memoranda – Rule 20492(a)(3) | | 14 |
| 5.9 Bank Statements and Cash Reconciliation-Rule 204-2(a)(4) | | 15 |
| 5.10 Bills and Statements – Rule 204-2(a)(5) | | 15 |
| 5.11 Trial Balance and Related Financial Records-Rule 204-2(a)(6) | | 15 |
5.12 Superseded by Section 12. Communications with the Public Rev. 09142013 ................................................................. 15
5.13 Discretionary Client Record – Rule 204-2(a)(8) and Discretionary Powers Record Rule 204-2(a)(9) ........................................ 16
5.14 Written Agreement Record – Rule 204-2(a)(10) ...................... 18
5.15 Advertising Records – Rule 204-2(a)(11) ................................ 18
5.16 Securities Transaction Reports – Rule 204-2(a)(12) .............. 20
5.17 Disclosure Document – Part II of Form ADV – Rule 204-2(a)(14) .... 21
5.18 Acknowledgement of Receipt of Documents from Solicitors – Rule 204-2(a)(15) ................................................................. 21
5.19 Documents Supporting Performance Results – Rule 204-2(a)(16) .... 21
5.20 Securities Record by Client – Rule 204-2(c)(1) ..................... 21
5.21 Securities Record by Security – Rule 204-2(c)(2) ................. 21
5.22 Filings Required under Rule 13f-1 of the Securities Exchange Act of 1934 .................................................................... 21

Chapter 6 Financial and Disciplinary Information-Rule 206(4)-4

6.1 Financial Disclosure ........................................................................................................ 21
6.2 Disciplinary Disclosure .................................................................................................... 22

Chapter 7 Internal Controls

7.1 General ..................................................................................................................................... 22
7.2 Characteristics of an Effective Compliance System ....................................................... 22
7.3 Written Policies and Procedures (Internal Control) – New Rule 206(4)-7 ......................... 23

Chapter 8 Services Offered by SFA

8.1 Advisory Services ................................................................................................................ 24
8.2 Investment Supervisory Services .................................................................................. 24
8.3 Management Services ....................................................................................................... 25

Chapter 9 Investment Management

9.1 Setting up the Client’s Account ....................................................................................... 25
9.2 Determining Suitability .................................................................................................... 25
9.3 Managing the Client’s Account .................................................................................... 26
9.4 Monitoring Account Activity ......................................................................................... 27
9.5 Termination of Accounts ............................................................................................... 27

Chapter 10 Prohibited Transactions

10.1 Agency and Principal Cross Transactions ................................................................. 27
10.2 “Front Running” ............................................................................................................. 27
10.3 Conducting Business in States where not Registered ................................................. 27
10.4 Diverted Opportunity ..................................................................................................... 28
10.5 Holding Client Funds or Securities ............................................................................. 28

99
Chapter 11  Limited Partnerships ................................................................. 28

Chapter 12  Conflicts of Interest

12.1 Personal Securities Transactions ..................................................... 28
12.2 Trading Restrictions ..................................................................... 29
12.3 Negative Reports .......................................................................... 30
12.4 Reports by Executing Broker/Dealers .......................................... 30
12.5 Personal Securities Transactions and Insider Trading Provisions
Under Sections 204A and 206-4 ......................................................... 30

Chapter 13  Brokerage Practices & Executions

Introduction ......................................................................................... 35
13.1 Best Execution ............................................................................. 35
13.2 Broker Selection Process ............................................................. 35
13.3 Trade management Disclosures .................................................. 38
13.4 Soft Dollar Transactions and Conflicts of Interest ....................... 38
13.5 Referral of Clients to SFA by Broker/Dealers ............................... 38
13.6 Directed Brokerage ..................................................................... 38
13.7 Negotiation of Brokerage Commission Rates .............................. 38

Chapter 14  Wrap Fee Programs

14.1 Wrap Fee Programs for Advisers .................................................. 39
14.2 Limitations of Wrap Fee Programs ................................................. 39
14.3 Wrap Fee Disclosures Required of Sub-Advisers ....................... 39
14.4 Other Disclosures ........................................................................ 40

Chapter 15  Marketing/Performance Calculation

15.1 Policy Regarding Marketing/Performance .................................... 40

Chapter 16  Compensation/Client Fees

16.1 Advisory Fees Based on Assets Under Management .................. 41
16.2 Advisory Fees Based on Portfolio Performance .......................... 41

Chapter 17  Client Referrals

17.1 Cash Payments for Client Solicitation – Rule 206(4)-3 ............... 42
17.2 Requirements under Rule 206(4)-3 ............................................. 42
Please note: These procedures are updated through the publication of IA Compliance Communications (“IACCs”), located at www.thesfa.net. Please refer to the IACCs for the most current guidance.

Introduction

The Investment Advisers Act of 1940 (“Advisers Act”) was enacted by the U.S. Congress in 1940 in conjunction with the Investment Company Act of 1940 for the purpose of establishing a set of uniform laws to regulate the activities of those persons and institutions involved in providing investment advisory services and the vehicles (investment companies) through which investors are able to participate in the growth of American industry and technology. The term “Investment Adviser” is defined in Section 202(a) (11) of the Advisers Act as, “any person who, for compensation, engages in the business of advising others, either directly or through publications or writings, as to the value of securities or as to the advisability of investing in, purchasing, or selling securities, or who for compensation and as part of a regular business, issues or promulgates analyses or reports concerning securities.”

The Advisers Act gives the Securities and Exchange Commission (the “Commission” or “SEC”) broad authority to make and enforce rules necessary and appropriate in implementing the provisions of the Act. In carrying out this mandate, the SEC has enacted various Rules under the Advisers Act. It is primarily through these rules that the SEC regulates the activities of investment advisers.

The Advisers Act and recently enacted amendments to the Act require that persons engaged in certain investment related activities register as investment advisers, either with the SEC or the state in which the adviser maintains its principal business, depending on the value of client assets under the adviser’s management. Prior to October 1996, all investment advisers were required to register with the SEC. However, under the Coordination Act of the National Securities Markets Improvement Act, which went into effect in July 1997, those advisers managing less than $25 million in client assets are required to register with the applicable state securities commissions, while those managing in excess of $25 million retain SEC registration requirements. In May 1997, the SEC adopted rules and forms under the Advisers Act implementing the general provisions of the Improvement Act. These rules and forms spell out the detailed requirements of procedures determining which advisers are subject to state or SEC registration and regulation and which advisory personnel are subject to state registration and regulation. The three operative terms defining who is an investment adviser are: (1) engaged in the business; (2) of advising others on the purchase and/or sale of securities; and, (3) for compensation.

The term “for compensation” has been broadly interpreted by the SEC and includes the receipt of any economic gain, whether in the form of a planning fee, a commission from the sale of a product, a fee paid by a sponsor for recommending a specific product or any other type of financial remuneration. Additionally, the Commission staff has stated that it is not necessary that an adviser’s compensation be paid directly by the person receiving investment advisory services, but only that the investment adviser receives a fee, commission or other compensation as a result of his activities as an investment adviser.

The SEC and the courts have stated that portfolio management professionals, including registered investment advisers, have a fiduciary responsibility to their clients. In the context of securities investments, fiduciary responsibility should be thought of as the duty to place the interests of the
client before that of the person providing investment advice and failure to do so may render the adviser in violation of the anti-fraud provisions of the Advisers Act. Fiduciary responsibility also includes the duty to disclose facts significant to an investor’s decision to purchase, or refrain from purchasing, a security recommended by the adviser. The SEC has made it clear that the duty of an investment adviser to refrain from fraudulent conduct includes an obligation to disclose material facts to his clients whenever the failure to disclose such facts would cause or has the potential to cause financial harm to the client or prospective client. An adviser’s duty to disclose material facts is particularly important whenever the advice given to clients involves a conflict or potential conflict of interest between the employees of the adviser and its clients.

**The Strategic Financial Alliance, Inc.’s Compliance with the Investment Advisers Act of 1940**

SFA is registered dually as a Financial Industry Regulatory Authority (“FINRA”) -member broker/dealer and as an investment adviser with the U.S. Securities and Exchange Commission (“SEC”). SFA is also registered with Municipal Securities Rulemaking Board (“MSRB”), and is a member of the Securities Investor Protection Corporation (“SIPC”).

Every broker/dealer and investment adviser has an obligation to protect the interests of its customers and to supervise the activities of its Registered Persons and Associated Persons1 pursuant to the rules and regulations of the SEC, FINRA, MSRB and the state jurisdictions in which they conduct business. This Compliance and Supervisory Manual is designed to provide a framework under which SFA and its designated supervisory personnel (referred to herein as “Supervisory Principals”) can fulfill its obligations as a registered investment adviser. SFA maintains a separate manual titled *Written Supervisory Procedures* which are designed to provide a framework under which SFA and its designated supervisory personnel (referred to herein as “Supervisory Principals”) to fulfill those obligations as a Financial Industry Regulatory Authority (“FINRA”) -member broker/dealer.

As a registered investment adviser, SFA and its associates are obligated to conduct their investment advisory activities in compliance with all applicable provisions of the Advisers Act. In addition to any federal requirements, SFA must also operate in compliance with the rules and regulations of each state in which it conducts business.

Under rule 206(4)-7, effective February 5, 2004, it is unlawful for an investment adviser registered with the SEC to provide investment advice unless written policies and procedures reasonably designed to prevent violation of the Advisers Act by the adviser and any of its supervised persons have been adopted and implemented. As such, this Compliance Manual has been developed to assist SFA and its associates in complying with the provisions of the Advisers Act and other advisory related statutes issued by state regulatory authorities. This manual is not to be construed as all inclusive, but rather it is intended to serve as a guide in conducting and supervising the daily investment advisory business of SFA. Above all, the manual presents “best practices” and is not designed to establish the minimum legal requirements for investment advisers; although, many of these best practices are required and do represent regulatory requirements.

Additionally, Rule 206(4)-7 requires each adviser registered with the SEC to designate a Chief

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1 For purposes of these *Written Supervisory Procedures*, “Registered Person” includes all Registered Representatives, Registered Principals involved in sales activities, and Registered Sales Assistants. “Associated Person” refers to all non-registered persons.
Compliance Officer (“CCO”) to administer its policies and procedures.

This Compliance Manual is to be maintained by SFA’s CCO in cooperation with the Chief Executive Officer (“CEO”), Department Manager(s) and other qualified persons of the firm. Additions and changes to the Compliance Manual will be announced as events occur requiring such revision. As required by Rule 206(4)-7, an annual compliance review must be conducted by the Chief Compliance Officer and any additions and changes since the preceding year will be referenced by date and initiating authority. Furthermore, SFA is required to maintain copies of all policies and procedures that are in effect, or have been in effect, at any time during the past five years.

The Compliance Manual and all amendments hereto, including those published as Compliance Communications, alerts or other notices, are available on the advisor site at www.thesfa.net. In addition, each associate involved in the SFA’s advisory activities will be required annually to reaffirm that he/she has read and will comply with all new, as well as old, provisions of the Compliance Manual. In those situations where an answer cannot be found in this Compliance Manual, an employee/associate should direct any question to their supervisor and/or to the Chief Compliance Officer. The Chief Compliance Officer, at her discretion, may conduct training sessions on selected provisions of the Compliance Manual in lieu of requiring that associates read the manual in its entirety each year.

Because SFA is dually registered as both an investment adviser and a broker-dealer, associated persons are also required to adhere to SFA’s Written Supervisory Procedures, and any amendments thereto, which are also available at www.thesfa.net.

Employees of SFA are subject to internal sanctions, which may include, but are not limited to, Caution Letters, Letters of Reprimand, Warning Letters, and Termination for violation of the procedures and policies set forth in this manual or industry rules and regulations. All reportable violations of the rules and regulations of the securities industry should be reported to the Chief Compliance Officer who will determine if they need to be reported to the proper regulatory agency. Disciplinary actions taken by the SEC or State Regulatory agencies can lead to fines, sanctions, and/or suspension of licenses and termination from SFA.

Responsibilities and Qualifications of SFA’s Chief Compliance Officer

Responsibilities of the Chief Compliance Officer

In fulfillment of the requirement stated above, SFA has a full-time Chief Compliance Officer located at its principal place of business. The primary responsibilities of the CCO include assuring that SFA’s compliance and supervisory procedures are designed to promote compliance with applicable laws, regulations and industry practices; and, to advise those members of SFA’s management with responsibility for supervising the investment advisory activities of SFA and its associates providing investment advisory services.

The CCO may assign other associates of SFA to assist in fulfilling his/her responsibilities. However, ultimate responsibility for ensuring that SFA and its associates comply with the provisions of this manual and the federal and state securities laws rests with the SFA’s management.

In the absence or incapacity of the CCO, the Chief Executive Officer of SFA will serve in his/her place with full responsibility to the extent permitted by qualifications according to regulations.
until a replacement can be secured.

**Qualifications of the CCO**
In order to serve as the CCO of SFA, an individual must have the following professional qualifications:

- Successful completion of the FINRA Series 63, 65 (or FINRA Series 7 and 66) or comparable industry and regulatory experience;
- Knowledge of FINRA, SEC and state rules and regulations; and
- No less than eight years of industry experience.

1 **Filings and Reports**

1.1 **Registration of SFA with the Commission**

Inasmuch as SFA has assets under management of more than $30,000,000, it is registered with the SEC as an investment adviser pursuant to Section 203(c) and Rule 203A-1 of the Advisers Act. While Section 203(c)(1) lists the information that must be provided on SFA’s application for registration (Form ADV), Rule 204-1 describes the steps (and time frame) which must be taken when the information on the ADV becomes inaccurate or misleading. **It is the responsibility of the CEO, in cooperation with the COO to prepare and maintain SFA’s ADV and the related filings, schedules and reports and to submit to the SEC any amendments thereto in accordance with the provisions of Rule 204-1.**

2 **Form ADV/Brochure Disclosure and Delivery**

2.1 **General Provisions**

The Form ADV Part 2A and Appendix (ces) will be used as the Firm’s basic disclosure documents. The Firm may, however, provide supplementary information to clients about its advisory services. It is the responsibility of the CCO to determine that the Firm’s Form ADV and all supporting schedules are updated annually or more often as necessary and that the information contained therein is accurate.

Form ADV Part 1 is filed on the IARD, and is subject to an annual amendment submission date of 90 days following the Firm’s fiscal year-end. This submission should accurately reflect characteristics of The Firm as of the close of the prior fiscal year. In the event of a significant change in operations, an intra-year amendment is required per the completion instructions for Form ADV Part 1:

- If the information in Items 1, 3, 9, or 11 of Part 1A, or Items 1, 2.A through 2.F, or 2.I of Part 1B becomes inaccurate for any reason, the adviser must promptly file an amended Form ADV.
- If the information in Items 4, 8, or 10 of Part 1A, or Item 2.G of Part 1B becomes materially inaccurate, the Form ADV must be amended promptly.
- Rule 204-1(b) (1) of the Advisers Act states that all of the Items in Part 2 must also be promptly amended if they become materially inaccurate.
• All other Part 1 changes to the Form ADV may be made with the annual renewal filing.

With respect to Form ADV, material inaccuracies should be considered as those facts or information which a client or prospective client would consider important in their decision to engage The Firm for advisory services. All associates should report to the CCO any information in the Form ADV and/or the Disclosure Document that such associate believes to be materially inaccurate or omits material information.

It is the responsibility of the CCO to determine that The Firm’s Disclosure Brochure (ADV Part 2A), Brochure Supplement(s) (ADV Part 2B), and all supporting appendices (the Firm Managed Account Program Wrap Fee Brochure) and schedules accurately reflect the operations and advisory activities and are updated annually; and, in the event of changes in operations are amended in a timely fashion to reflect these new activities. Updates are required:
• Each year at the time of the annual updating amendment; and
• Promptly whenever any information in the brochure becomes materially inaccurate.

The Firm is not required to update the disclosure documents between annual amendments solely because the amount of client assets has changed or because the fee schedule has changed. However, if the Firm is updating the disclosure documents for a separate reason in between annual amendments, and the amount of assets The Firm manages or the fee schedule has become materially inaccurate, the Firm should update those items as a part of the interim amendment.

When making the annual updating amendment to Form ADV The Firm’s Disclosure Brochure (Form ADV Part 2A) and the Firm Managed Account Program Wrap Fee Brochure (Form ADV Part 2A: Appendix1) and a summary must be uploaded together in a single, text searchable Adobe Portable Document Format (PDF) file in IARD. The CCO will maintain copies of all files.

2.2 Offer and Delivery of Form ADV

The Firm’s Disclosure Brochures will be furnished to prospective clients prior to, or contemporaneously with, the signing of the written agreement with the Firm for advisory services. Proof of delivery of The Firm’s Disclosure Brochures and supporting schedules will be evidenced by the client(s) signing the Advisory Agreement. A copy of the written agreement and all attachments will be reviewed and approved by the CCO or CSO, or qualified designee, and will be maintained in the customer file.

The Firm will deliver to existing clients annually (within 120 days of fiscal year end):
• Current Disclosure Brochures, or
• The Summary of Material Changes to the Disclosure Brochures.

As required by Item 2 of Form ADV, Part 2A the Firm is required to provide our current brochure without charge, accompanied by the Web site address (if available), and an e-mail address (if available), and telephone number by which a client may obtain our current brochure, and the Web site address for obtaining information about the Firm through the Investment Adviser Public Disclosure (IAPD) system.

The Firm will also deliver to each client or prospective client a current brochure supplement for a supervised person before or at the time that supervised person begins to provide advisory services to the client. When a brochure or brochure supplement, as applicable, is amended to add disclosure of an event, or materially revises information already disclosed about an event, in response to Item 9 of Part 2A of Form ADV or Item 3 of Part 2B of Form ADV (Disciplinary
Information), the Firm will deliver the following to each client promptly:

(i) the amended brochure or brochure supplement, as applicable, along with a statement describing the material facts relating to the change in disciplinary information, or
(ii) a statement describing the material facts relating to the change in disciplinary information.

Delivery may be made through e-mail or other electronic means if the client has agreed to receive electronic communications.

2.3 Required Disclosures

If at any time there are affirmative responses to the Firm’s ADV Part 1, Item 11, Disclosure Information, the CCO will provide a detailed explanation of the circumstances of the affirmative response on the appropriate disclosure reporting page(s). All associates should report to the CCO any event which would lead to an affirmative answer to questions in Item 11.

Questions relating to custody or possession of customer funds and securities, discretionary authority or the use of solicitors should be reviewed for compliance with the applicable rules since affirmative responses to any of these items may require the preparation of additional books and records.

An investment adviser who has custody or discretionary authority over client funds or securities, or who requires prepayment of fees of more than $1,200.00 per client for services to be performed over a period in excess of six months, must disclose any financial condition which might impair the adviser’s ability to meet its contractual commitments to clients.

It is the responsibility of the Controller to take forecasting steps so that The Firm’s net worth remains positive at all times. At any time, should The Firm’s liabilities actually exceed its assets, or it appears that liabilities may exceed assets, the Controller will immediately notify the President who will take steps to correct the actual or pending net worth deficiency and, if necessary, to commence steps to comply with the financial disclosure provisions of the Act. Existing clients must be notified in writing of The Firm’s financial condition and prospective clients must be informed of such condition before entering into any agreement for advisory services.

3 Client Agreements/Contracts - Section 205

3.1 General

SFA, through its investment advisor representatives, provides advisory services through written agreements only. Copies of these agreements are included in Exhibit 1. As needed, unique agreements may be written to satisfy unique situation. Such agreements will follow the general format and include the same disclosures as the standard contracts and be pre-approved by the CEO or CCO.

SFA written agreements do not provide for charging performance-based fees and do not include language intended to limit SFA’s liabilities under the agreements. SFA written agreements do
stipulate that services performed under the agreement(s) cannot be assigned without the client’s written consent.

It is the responsibility of the CCO, CSO or qualified designee, to review and approve each client’s written agreement and any supporting documents to monitor requested information has been obtained by the associated person servicing the account.

3.2 Privacy of Client Financial Information (Regulation S-P)

As general policy, SFA will not disclose personal financial information about any client to non-affiliated third parties except as necessary to establish and manage the client’s account(s) or as required by law. In these situations, personal financial information about a client may be provided to the broker/dealer or other custodian maintaining these accounts.

Our Privacy Policy allows associated persons who affiliate with another firm to take client information to that firm in order to continue providing service to the client. Clients have the option to opt out of having their information taken.

In addition, SFA restricts access to a clients’ non-personal financial information to those employees who need to know such information in order to provide products or services to clients. SFA maintains physical, electronic, and procedural safeguards that comply with federal standards to guard each client’s personal financial information. Such safeguards include, among other things, restricting information contained on the Client Investment Questionnaire or in any client documentation to each client’s personal account manager, the manager’s supervisor, and SFA’s CCO or such other persons as the CCO deems as needing to know the information. SFA’s central files are secured (locked) after normal business hours.

3.3 Delivery of SFA’s Privacy Notice

Each client will be provided with a copy of SFA’s Privacy Notice promptly upon opening an account. In addition, each active client of SFA will be provided with a copy of the Privacy Notice within 90 days following the close of SFA’s fiscal year, in conjunction with the annual delivery of the Summary of Material Changes.

3.4 Arbitration Clauses in Advisory Agreements

In view of the SEC position regarding arbitration clauses in advisory agreements, the SFA Arbitration Agreement includes the following language, “Client understands that this agreement to arbitrate does not constitute a waiver of the right to seek a judicial forum where such waiver would be void under the federal securities laws.”

4 Custody of Client Funds and Securities - Amended Rule 206(4)-2

4.1 Amended Rule 206(4) -2

On September 25, 2003, the Securities and Exchange Commission adopted significant amendments to the custody provisions of Rule 206(4)-2 of the Investment Adviser Act of 1940 (“Advisers Act”). The effective date of the revised rule was November 5, 2003 with a
compliance date of April 1, 2004.

The amended rule includes a definition of “custody” and requires that advisers having custody are to maintain client funds and securities with a broker/dealer, bank, or other “qualified custodian.”

4.2 Direct Client Billing vs. Billing the Account Custodian/Broker for Advisory Fees

Under the amended rule, if the adviser submits an invoice directly to the client’s custodians/brokers for payment of its advisory fees, the adviser is considered to have custody of client assets. To comply with the custody provisions under the amended rules, advisers need only notify the client’s custodian/broker-dealer of the amount of the fee to be deducted from the account and ensure that the custodian/broker-dealer sends a statement, at least quarterly, directly to the client showing the fee deduction.

4.3 Delivery of Account Statements to Clients

The amended custody rule requires that if an adviser has custody of client funds or securities, it must have a reasonable belief that the qualified custodian holding the assets provides quarterly account statements directly to each client. However, if there is some exception where the qualified custodian does not deliver these statements to the clients, the adviser must deliver its own quarterly statements to its clients. Under the amended rule, the adviser, in such a situation, must undergo an annual surprise examination of client accounts by an independent public accountant to verify the funds and securities of the clients. The amended rule also requires that the accountant notify the OCIE within one business day of finding any material discrepancies during an examination.

It is SFA’s general policy that the qualified custodian is to send quarterly account statements directly to the investor for those clients who are either registered investment companies or a pooled investment vehicle. If this is not practicable for the qualified custodian, SFA will determine which of the other options is most reasonable under the circumstances.

The amended custody rule eliminates the exemption for advisers that also serve as registered broker/dealers which are qualified custodians under the rule.

Clients that do not wish to receive quarterly statements may authorize an independent representative to receive the statements on their behalf. The rule requires that an independent representative meet certain criteria:

- The independent representative must act as an agent for the client and either by law or by contract is obligated to act in the client’s best interest,
- The independent representative must not be affiliated with the adviser, and
- The independent representative must not have, or have had in the prior two years, a material business relationship with the adviser.

4.4 Amendments to Form ADV

As SFA has custody of client assets solely because it deducts advisory fees from client accounts, it may still answer “no” to the question on custody in Item 9 of Form ADV Part 1A.

Additionally, advisers having custody of client assets will no longer be required to include an
audited balance sheet with the disclosures statements (brochures) sent to its clients unless the adviser charges advisory fees in excess of $1200 for services intended to be performed over a period in excess of six months or more.

4.5 SFA’s Compliance with Amended Rule 206(4)-2

Although SFA has custody only because advisory fees are deducted from client custodians, we must still ensure compliance with Amended Custody Rule 206(4)-2. As such, the CCO or appropriately qualified designee will:

- Maintain a list of all custodians that hold SFA client assets other than assets for registered investment companies managed by SFA. Under the amended rule, transfer agents for such investment companies are considered qualified custodians.
- Verify that each of these custodians is a “qualified custodian.”
- Verify that each custodian holds client assets in a separate account under that client’s name or in an omnibus account established only “for the benefit of clients of adviser”
- Establish and document that there is a “reasonable basis” for believing that the custodian sends, at least quarterly, an account statement to each client. The account statements must show all securities transactions and additions or withdrawals in that client’s account during the period. These requirements would be met in a standard brokerage statement. See above, Direct Client Billing vs. Billing the Account Custodian/Broker for Advisory Fees
- Ensure that written agreements with clients and our Form ADV are accurate with respect to custody disclosures.
- Amend SFA ADV to reflect new custody issues as they occur.

In addition to the above measures, all employees of SFA are required to avoid:

- Inadvertently holding or gaining access to client funds and securities, and
- Accepting client stock certificates for safekeeping or for subsequent delivery to third parties.

5 Books and Records - Rule 204-2

5.1 Responsibility for Preparation and Maintenance

It is the responsibility of the CCO to develop and enforce procedures to ensure that all books and records required under Rule 204-2 are properly prepared and maintained, except, however, the Controller is responsible for financial and accounting records.

5.2 Accounting and Financial Records

The Advisers Act imposes specific record keeping requirements on registered investment advisers. Generally, Rule 204-2 of the Advisers Act requires advisers to maintain two basic types of books and records: (i) typical business accounting records, and (ii) certain records the SEC believes an adviser should keep in light of the nature of its business. This Rule requires, among other things, that the records be current and readily available.
5.3 Accrual Basis

It is the policy of SFA that all accounting records will be prepared on the accrual basis. Therefore, reconciliation is not required.

5.4 Record Preservation

Rule 204-2(e) requires that all books and records (except those required under the provisions of paragraphs (a)(11) and (a)(16) of this Rule) be maintained in an adviser’s principal place of business for two years after the last entry date and for three additional years in an accessible repository if not maintained on premises. Articles of Incorporation, partnership articles, minute books, and all other books and records not used in the day-to-day course of business may be maintained at such another location, i.e., attorney’s or accountant’s office, if clearly described in Section 1.K of Form ADV Schedule D. It is SFA’s policy to maintain all such hard copy books and records at its principal place of business located at 2200 Century Parkway, Suite 500, Atlanta, GA 30345. Client agreements, profiles, and other documents are maintained in Docupace. Paragraphs (a)(11) and (a)(16) relate, respectively, to advertising records and records supporting portfolio performance and must be available for SEC review as long as such records are used to show performance.

Rule 204-2(g) permits an adviser to maintain and preserve required records in a computer storage medium in lieu of having to preserve such records in hard copy format. However, any records maintained in computer storage must be retrievable in document format. Data retrieval by itself may not be acceptable to the SEC. Document information received from a broker/dealer or custodian on diskette, CD ROM, or by downloading onto SFA’s computers must be in “read only” format so as to preclude altering or tampering with the information.

5.5 Specific Books and Records to be Prepared and Maintained

Rule 204-2(a) requires that advisers prepare and maintain certain specific books and records to document the adviser’s financial and administrative compliance with the Advisers Act. These are discussed below.

5.6 Cash Receipts and Disbursement Journal - Rule 204-2(a)(1)

Receipts of checks and payment of funds will be recorded promptly by SFA’s Controller or appropriately qualified designee in SFA’s check register or other similar journal. At no time will SFA accept cash from a client in connection with a securities purchase.

5.7 General Ledger - Rule 204-2(a)(2)

The Controller is responsible for maintaining SFA’s general ledger reflecting all assets, liabilities, income, expenses, and net worth. If at any time SFA’s liabilities exceed its assets, the Controller will immediately notify the CCO or appropriately qualified designee who will take appropriate steps to comply with the disclosure requirements of Rule 206(4)-4. See Financial and Disciplinary Information.

5.8 Order Tickets/Memoranda - Rule 204-2(a)(3)

Rule 204-2(a)(3) requires the preparation of a memorandum or “order ticket” of each transaction
for the purchase or sale of any security for a client’s account. In accordance with the provisions of this rule, all order tickets submitted by SFA’s investment adviser representatives must include the following information:

- The terms and conditions of the order, including any special instruction, modifications, or cancellation instructions; i.e. purchase or sale, number of shares or par value, whether entered as a market or limit order, duration of order such as day or “good-till-cancelled”;
- The identification of the investment advisor representative recommending the transaction to, or on behalf of, the client and the person placing the order, if different from the recommending party;
- The client’s name and/or account number (or client account code, if appropriate) for whom the order was entered, the date of entry, and the broker/dealer or bank by or through which the order was entered/executed; and,
- If the order was entered pursuant to discretionary authority, the ticket must be marked as discretionary.

Advisors who enter orders electronically through the custodian’s order entry system are not required to maintain separate hard copy order tickets or confirmations of securities transactions. However, they must preserve and be able to retrieve the order ticket information and confirmations if requested by regulatory authorities.

The Rep Number associated with the account will indicate the representative recommending the transaction. The login associated with the user will indicate the person placing the order.

5.9 Bank Statements and Cash Reconciliation - Rule 204-2(a) (4)

It is the responsibility of the Controller to reconcile SFA’s bank statements monthly. The Controller will review SFA’s bank statements, canceled checks, deposit slips, and check registers to ensure that the cash account in the general ledger is accurate.

5.10 Bills and Statements - Rule 204-2(a)(5)

The Controller will maintain a record of all bills and statements, paid or unpaid, received for goods and services purchased for the use and benefit of SFA. Invoices for goods and services which are not clearly identifiable for the use of SFA in the operation of its advisory business will not be paid until such use is established. Invoices for goods and services purchased by associates for his/her personal use will not be paid by SFA, but will be returned to the associate for payment.

5.11 Trial Balance and Related Financial Records - Rule 204-2(a)(6)

The Controller will prepare a quarterly trial balance reflecting SFA’s financial condition as of the end of that quarter. It is not necessary that hard copies of the trial balance be printed, but such information must be available at any time for retrieval through SFA’s accounting software.

5.12 Written and Other Communications Records - Rule 204-2(a)(7)

This Section is superseded by Section 12. Communications with the Public rev. 09142015 from the SFA Written Supervisory Procedures, available at www.thesfa.net.

Rule 204-2(a)(7) of the Advisers Act requires generally that advisers maintain the originals of all written communications received, and copies of all written communications sent to any party,
including persons who are not clients of the adviser, relating to the business of providing investment services.

5.13 Delivery of Proxies, Prospectuses, and Processing of Class-Action Lawsuit Requests

Inasmuch as SFA does not serve as custodian for any client securities, proxies for securities held in accounts will be provided to each client by the account’s respective broker/custodian.

To the extent available, SFA will provide prospectuses to clients for any investment company prior to actual purchase of fund shares. If prospectuses are not immediately available through SFA, the associate handling the account should take all reasonable steps to obtain a prospectus from the fund’s underwriter, distributor, or executing broker.

It is SFA’s policy not to vote client proxies.

With respect to class action lawsuits, SFA will not be obligated to advise or act for its clients in any legal proceeding, including class actions and bankruptcies involving securities purchased or held in accounts managed by SFA. Notice of SFA’s position with respect to such legal proceedings will also be acknowledged in SFA’s written agreement.

5.14 Discretionary Client Record - Rule 204-2(a)(8) and Discretionary Powers Record Rule 204-2(a)(9)

Investment advisor representatives are not permitted to enter any order for the purchase or sale of securities for any account without first consulting with and receiving the client’s approval for such transaction. Failure to obtain the client’s approval before entering a trade may result in the representative having to personally absorb any loss to the account if the trade is later canceled. Moreover, it is SFA’s policy to closely monitor the occurrences of such breaches of policy and portfolio managers who execute such unauthorized trades may be subject to significant disciplinary action, including termination.

Discretion is granted only for the management of Strategic Choice Program accounts.

The Financial Advisor may request approval to exercise discretion in Strategic Choice Program accounts on the TSFA Form 237, Strategic Choice Program Participation Request. Approval must be acknowledged in writing by the respective OSJ Principal, the Chief Supervisory Officer (“CSO”) and/or the Chief Compliance Officer, (“CCO”).

The Financial Advisor’s experience, disciplinary history, methodologies, and types of clients and size of accounts will be considered in making this determination.

Compliance will maintain a list of all Financial Advisors who are authorized to exercise discretion.

Each client will be asked to re-confirm the granting of discretionary authority no less than once every three years.

The exercise of discretion by an approved Financial Advisor is limited to the following:

- Discretion may be exercised only in a managed account through the Strategic Choice Program or other advisory program as specified by CSO and/or CCO;
- Discretion is not permitted in 30U accounts;
- Discretion is not permitted in ERISA accounts;
- Client must authorize discretion by reviewing and signing the
The Strategic Choice Agreement;

- OSJ Principal will affirmatively accept an account for discretionary management as evidenced by
  - Signing the Strategic Choice Agreement where indicated, and
  - Principal approving the Trading Authorization.
- Designated Home Office Principal will affirmatively accept an account for discretionary management by execution of the Strategic Choice Agreement.
- Operations will designate the account in Pershing as “Discretionary” only after the approval of the OSJ and Home Office Principals is evidenced on the appropriate forms. Operations will verify that the respective Financial Advisor’s name appears on the Authorized Discretionary Advisors list maintained by Compliance.
- No discretionary transactions may be placed in the Account until has been designated in Pershing as a discretionary account (“IP”).
- Discretion is limited to buying and selling securities in the managed accounts.

Financial Advisors are precluded from the following activities in a discretionary account:
- Funds and securities may not be withdrawn.
- Transactions in limited partnerships, REITS, private securities or variable annuities may not be effected on a discretionary basis.
- Discretionary authority is specific to the named advisory representative(s) and may not be delegated without newly executed Trading Authorization.
- When an account is managed jointly by two Financial Advisors, and both Financial Advisors are named as the Authorized Agent, both Financial Advisors will be equally responsible for the transactions effected in the account.

Note:
1. When completing the Trading Authorization, the Advisory Representative who is being granted discretionary authority should be the named Authorized Agent in Section V. The Strategic Financial Alliance, Inc. is named in the Section II as the party authorized to accept instruction from the named Authorized Agent.
2. This Form has been prepopulated in Section II for your convenience.
3. The Strategic Choice Agreement was amended 08.15.2015. After August 31, 2015, the previous version will not be accepted.

Discretion may be granted to approved Financial Advisors in the Strategic Select Program through the Statement of Investment Selections generated through Envestnet. [June 2016]

5.15 Written Agreement Record - Rule 204-2(a)(10)

SFA will provide advisory services to clients only upon the execution of a written agreement between SFA and the client. SFA will, in addition, accept certain investment advisory agreements between designated unaffiliated advisory firms or brokerage firms and clients once such agreements have been approved by the CCO or appropriately qualified designee. The general terms and conditions of such agreement are discussed above Client Agreements/Contracts. Inasmuch as the Client Investment Questionnaire contains important
information about the client’s personal and financial circumstances, including his/her investment objectives, written agreements will be reviewed and approved by a principal of SFA on a timely basis. Such review and approval will be evidenced by the signature of the CCO or appropriately qualified designee on the written agreement.

In some cases, the custodian who maintains a client’s assets may provide SFA with a copy of the client’s completed investment risk assessment questionnaire or other document that is comparable to the Client Investment Questionnaire. If the custodian’s questionnaire is current and provides equivalent information on SFA Client Investment Questionnaire, a principal or the CCO or appropriately qualified designee has the option of accepting it in lieu of the Client Investment Questionnaire. Upon approval by the CCO or appropriately qualified designee, a copy of the written agreement will be placed in the client’s file folder in Docupace.

5.16 Advertising Records - Rule 204-2(a)(11)

a. General Discussion  [Please see Section 12. Communications with the Public of the SFA Written Supervisory Procedures which are incorporated herein by reference.]

Rule 206(4)-1 of the Advisers Act defines the term “advertisement” to include any “notice, circular, letter or other written communication addressed to more than one person, or any notice or other announcement in any publication or by radio or television, which offers (1) any analysis, report or publication concerning securities, or which is to be used in making any determination as to when to buy or sell any security, or which security to buy or to sell, or (2) any graph, chart, formula or other device to be used in making any determination as to when to buy or sell any security, or which security to buy or sell, or (3) any other advisory service with regard to securities.” This broad definition generally encompasses any form letter and includes the standardized written material in booklets used by advisers for presentations to prospective clients.

Rule 206(4)-1 does not require that an adviser submit an advertisement to the SEC for approval. As a matter of policy, the SEC will neither review specific advertising material, nor will the staff approve or disapprove any advertisement prior to its dissemination to the public. Under more narrow definitions of advertising certain states may require submission of advertising material for review and approval. It is the responsibility of the CCO or appropriately qualified designee to determine the requirements of each state prior to publishing any advertisement in that state or sending any advertisement to a resident of that state.

b. What is Misleading Advertising?

Section 206(4) of the Advisers Act addresses generally false and misleading advertising by an investment adviser and Rule 206(4)-1(a), thereunder, lists the following activities which the SEC considers to be false and misleading: [Note: The word “distributing” is used synonymously with “publishing” and “circulating.”]

- Distributing any testimonial about the adviser extolling his/her investment advice, analyses, reports or other services rendered by the adviser;
- Distributing any advertisement which refers to past specific recommendations that were or would have been profitable, unless the adviser offers at the same time to furnish a list of all recommendations made within the immediately preceding year. If a separate list is provided, it must contain: (i) the name of each security recommended by the adviser; the date and nature of the recommendation (buy, sell or hold); (ii) the market price of the
security at the time of recommendation, the market price at the time of execution and the most recent market price; and (iii) the following cautionary legend: “It should not be assumed that recommendations made in the future will be profitable or will equal the performance of the securities on this list.”

- Distributing any graph, chart, formula, or other device which claims it can be used to determine which security to buy or sell, or when to buy or sell, or which claims it will assist an investor in making such decisions for himself, without prominently disclosing the limitations and difficulties of using such devices, formulas, etc.
- Distributing an offer to provide any report, analysis, or other service without charge unless such service or material actually is or will be furnished entirely free and without any condition or obligation, directly or indirectly; and
- Distributing any untrue statement of a material fact, or which is otherwise false or misleading.

Advertising may also be deemed misleading, if it implies something about the competence of an adviser, or the investment experience (success) of advisory clients, or suggests that similar investment strategies would be beneficial to prospective clients about whom the adviser may have little or no information as to investment objectives or financial circumstances.

The SEC has said that the use of such words as “superior” and “excellent” may also be misleading because “such superlatives may lead investors to believe that the adviser is the only one capable of providing adequate advisory services or infer something about future investment results that may not be warranted and may lead prospective investors to conclude erroneously that comparable opportunities cannot be found elsewhere.” [Taken from a 1999 SEC deficiency letter to an adviser]

In another deficiency letter, the SEC asked an adviser to provide its “analyses and any documentation” to support the accuracy of statements in the adviser’s marketing materials which claimed “Our long-term record shows that a consistency of approach and a commitment to quality stocks, which have the potential for appreciation in value, have resulted in increased wealth for our clients” and, “Our investment approach has enabled us to achieve long-term investment returns for most of our clients.”

Remarks published in a newspaper article about an adviser are not ordinarily subject to the advertising rules unless the article was planted by the adviser as a disguised advertisement to solicit new clients. “Planted material” may fall under the anti-fraud provisions of Section 206. Investment advisory material that promotes advisory services for the purposes of inducing potential clients to subscribe to those services is considered advertising material within the Rule. At least one Regional Office of the SEC has taken the position that reprinting and distributing newspaper and/or trade journal articles to clients or prospective clients which favorably discuss an adviser’s management skills is an “indirect testimonial” in violation of 206(4)-1.

It is the responsibility of the CCO or appropriately qualified designee to review SFA’s advertising and sales materials to ensure that it complies with the provisions of Rule 206(4)-1 and that the advertising does not violate any of the anti-fraud provisions of Section 206 of the Advisers Act. While an advertisement may accentuate positive facts about SFA, the CCO or appropriately qualified designee should be prepared to document the accuracy of such claims if required by regulatory authorities. In addition to the legal requirements of the advertising rules, the CCO or appropriately qualified designee will review all sales literature to ensure that it is accurate and in good taste so as to reflect favorably on SFA.
Please refer to Section 12 Communications with the Public of the SFA Written Supervisory Procedures.

5.17 **Securities Transaction Reports – Rule 204-2(a)(12)**

Rule 204-2(a) (12) requires generally that any partner, officer or director of an adviser or any associate who makes, participates in making, or whose activities relate to making any recommendation as to the purchase and/or sale of securities must report his/her personal securities transactions to a designated principal of the adviser not later than 10 calendar days following the end of each calendar quarter. Such persons are collectively defined as “Advisory Representatives” under paragraph (A) of the Rule. This reporting requirement also applies to any associate of SFA who in the course of his/her duties is in a position to obtain any information about securities that are to be recommended to clients of SFA.

Securities transaction reports for associates of SFA deemed to be “advisory representatives” must contain the following information:

- The name and amount of the security purchased or sold;
- The date and nature of the transaction (whether bought, sold, exercised, tendered, etc.);
- The price at which the transaction was effected; and,
- The name of the broker/dealer, bank, or other medium with or through whom the transaction was effected.

Because SFA and its associates have a fiduciary relationship to clients, there is an affirmative duty not to overreach or disadvantage any client, or to otherwise take unfair advantage of his/her trust. With respect to personal securities transactions, clients may be disadvantaged when an associate executes a personal trade ahead of pending client transactions in the same security or when an associate purchases an over-subscribed initial public offering (“IPO”) rather than distributing the shares to client accounts. The trading records required under the Rule are intended as a means of bringing inappropriate trading practices to light. For this reason, the CCO or appropriately qualified designee will monitor the personal securities transactions of associates to ensure they are fulfilling their fiduciary responsibilities to SFA clients. Specific procedures to monitor compliance with the disclosure provisions of Rule 204-2(a) (12) are described below in Chapter 12, Conflicts of Interest, and in Appendix B, Code of Conduct/Ethics.

5.18 **Form ADV/Brochure Disclosure Document - Rule 204-2(a)(14)**

See Section 2 above.

5.19 **Documents Supporting Performance Results - Rule 204-2(a)(16)**

Rule 204-2(a)(16) requires advisers to prepare and maintain documents necessary to substantiate any composite performance that an adviser gives to clients and prospective clients or which is contained in any advertisement distributed by an adviser to the public. However, it is SFA’s policy not to advertise performance results.

5.20 **Securities Record by Client - Rule 204-2(c)(1)**

SFA will maintain records for each client showing (1) securities purchased and sold; (2) the date of each transaction, and (3) the share amount and price per share for each transaction. Such
statement will also show any contributions or withdrawals, receipt of dividends and interest, and the total securities holdings in the account at the end of the statement period.

Inasmuch as SFA does not hold client funds and securities, account activity and position data required under this rule will be provided in monthly or quarterly statements and trade confirmations by the broker/dealer, bank, or other custodian maintaining the client’s account. These statements and confirmations will be accessed by each client’s respective portfolio manager through the account custodian. Hard copies may be maintained in the client file.

5.21 Securities Record by Security - Rule 204-2(c)(2)

Retrieval of portfolio data, including securities activities and portfolio holdings for each client account, is accessed through the custodian. A Securities Record by Security, listing all clients whose accounts hold a particular security as of any selected date will be retrieved through the custodian. Such record must also show the number of shares held in each client’s account. This record is also known as a “cross reference index” or “securities cross reference.”

5.22 Filings Required under Rule 13f-1 of the Securities Exchange Act of 1934

Rule 13f-1, Reporting by Institutional Investment Managers of Information with Respect to Accounts over which they Exercise Investment Discretion, requires, generally, that every institutional investment manager which exercises discretion over accounts having an aggregate fair market value of at least $100,000,000 of “13(f) securities” must file reports on Form 13F with the SEC within 45 days after the last day of each calendar quarter.

6 Financial and Disciplinary Information - Rule 206(4)-4

6.1 Financial Disclosure

SFA does not accept custody of client funds or securities nor does SFA require prepayment of fees of more than $500 per client in excess of six months.

SFA has custody of client funds solely as a result of the amended custody rule regarding deduction of fee. For this reason it is responsibility of the Controller to assure that SFA’s net worth remains positive at all times. At any time, should SFA’s liabilities actually exceed its assets, or it appears that liabilities may exceed assets, the Controller will immediately notify the Chief Executive Officer (“CEO”) who will take steps to correct the actual or pending net worth deficiency and, if necessary, commence steps to comply with the financial disclosure provisions of Rule 206(4)-4.

6.2 Disciplinary Disclosure

Rule 206(4)-4 requires that SFA disclose relevant facts about any legal or disciplinary “event” which would be material in evaluating SFA’s integrity or ability to meet contractual commitments to clients.

Rule 206(4)-4 defines “management person” as a person with the power to exercise, directly or indirectly, a controlling influence over the management or policies of SFA, or to determine the
general investment advice given to clients. The following factors are to be considered in determining if an event is “material:”

- The separation of the individual causing the “event” from the advisory functions;
- The nature of the violation or infraction of the law;
- The severity of the sanctions imposed; and,
- The time which has elapsed since the violation or infraction.

Rule 206(4)-4 also requires that if SFA or any associate designated as a “management person” is found to have committed any of the offences listed in sub-section (a) of the rule, such information must be disclosed to clients promptly, and to prospective clients not less than 48 hours prior to entering into any agreement for advisory services, or no later than the time of entering into such agreement if the client has the right to terminate the contract without penalty within five business days after entering into the agreement. For purposes of this rule, the term “promptly” shall mean within ten business days. Disciplinary information may be disclosed to clients and prospective clients in SFA’s Form ADV provided that delivery of the ADV satisfies the timing of disclosure requirements described in paragraph (c) of Rule 204-3.

Under certain circumstances, disclosure of some disciplinary information may not be required after a period of 10 years from the date of the violation or if the violation was not material. Any required disciplinary disclosures are to be reported on the appropriate sections of ADV Part 1A Disclosure Reporting Pages for SFA. It is the responsibility of the CCO or appropriately qualified designee to ensure that any disciplinary information requiring disclosure is promptly reported on SFA’s amended Form ADV and that clients and prospective clients receive the information within ten business days.

7 Internal Controls

7.1 General

A primary responsibility of the CCO or appropriately qualified designee is to implement a compliance program to help ensure that all advisory activities of an adviser are in compliance with the provisions of the Advisers Act and the various SEC rules thereunder. In fulfilling this responsibility, the CCO or appropriately qualified designee will implement a compliance system to which both management and all associates are committed fully and which has the effect of fostering a compliance oriented environment within SFA.

7.2 Characteristics of an Effective Compliance System

Specific characteristics of SFA compliance system require that:

- All relevant advisory activities of SFA are addressed in its written Compliance Manual;
- The Compliance Manual is updated periodically by the CCO or appropriately qualified designee and reviewed at least annually;
- The Compliance Manual assigns specific responsibilities to individual associates of SFA; and,
- All newly employed associates are required to read the Compliance Manual as part of SFA’s orientation procedures, and all associates of SFA will receive periodic training in matters of regulatory importance. In addition, the CCO or appropriately qualified
designee will distribute to all associates involved in providing advisory services, copies of amendments, revisions, and up-dates to the Compliance Manual as well as relevant regulatory information received from the SEC and other authorities.

To ensure a reliable and effective compliance system meeting the above characteristics, the CCO or appropriately qualified designee will monitor compliance with the procedures specified in this Compliance Manual. The compliance system developed by the CCO or appropriately qualified designee will be reviewed and, upon approval, will be implemented by SFA CEO.

7.3 **Written Policies and Procedures (Internal Control) – New Rule 206(4)-7**

To bring about an effective compliance system of internal controls, the SEC adopted new Rule 206(4)-7 under the Advisers Act that requires investment advisers registered with the Commission:

- to adopt and implement written policies and procedures reasonably designed to prevent violations of the federal securities laws,
- to review those policies and procedures annually for their adequacy and the effectiveness of their implementation, and
- to designate a Chief Compliance Officer to be responsible for administering the policies and procedures.

The new rule became effective February 5, 2004 and advisers must be in compliance with the rule by October 5, 2004. Many of the policies and procedures listed in this section may also be found in other sections of the guide.

OCIE has stated that at a minimum, an adviser should have policies and procedures to address the following ten (10) internal control concerns. Following each of the SEC concerns is a reference to the specific (s) in this Compliance Manual where these concerns are addressed.

1. Portfolio management processes, including allocation of investment opportunities among clients.
   (These issues are addressed in Chapter 9, Investment Management, and Chapter 10, Prohibited Transactions.)
2. Trading practices, including procedures by which adviser satisfies its best execution obligation
   Best execution procedures are addressed in Chapter 13, Brokerage Practices & Execution.
3. Proprietary trading by adviser and personal trading by advisory employees
   These issues are addressed in Chapter 10, Prohibited Transactions, and 12, Conflicts of Interest.
4. The accuracy of disclosures made to investors, clients, and regulators, including account statements and advertisements
   These issues are addressed in Chapter 6, Financial and Disciplinary Information, 14, Wrap Fee Programs, and 15, Marketing/Performance Calculation.
5. Safeguarding of client assets from conversion or misappropriation by advisory personnel
   This issue is addressed in Chapter 4, Custody of Client Funds and Securities – Amended Rule 206(4)-2.
6. Accurate creation, maintenance and safekeeping of required records and the
procedures to protect such records from untimely destruction
Creation, maintenance, and safekeeping of required records are addressed in Chapter 5, Books and Records – Rule 204-2. Procedures to protect such records from untimely destruction are addressed in Exhibit 4, Business Continuity Planning.

7. Marketing of advisory services, including the use of solicitors to obtain clients
Marketing of advisory services is addressed in Chapter 9, Investment Management. The use of solicitors is addressed in Chapter 17, Client Referrals.

8. Procedures to value client securities and assess fees based on those valuations
These issues are addressed in Chapter 16, Compensation/Client Fees.

9. Safeguards for the privacy protection of client records and financial information
Protecting client financial privacy is addressed in Chapter 3, Client Agreements/Contracts, and in SFA’s Privacy Notice.

10. Business continuity planning
Business continuity planning is addressed in SFA’s Business Continuity Plan.

8 Services Offered by SFA

8.1 Advisory Services

The term “advisory services” refers to the way in which an adviser conducts its business and its relationship with individual clients. An adviser’s duty to each client, and the degree of management responsibility assumed, varies with the type of services the client may require. In addition, an adviser and its investment advisor representatives have a fiduciary duty to learn the essential facts about each client’s financial situation, investment objectives, goals, and risk tolerance before executing any transaction for that client. SFA’s principal service involves counseling our clients on appropriate courses of action designed to meet specific investment objectives and/or achieve financial independence.

SFA offers individualized account management services through its investment advisor representatives who have been evaluated by the Investment Committee of SFA as having the requisite qualifications to manage client accounts. These accounts are managed on a non-discretionary basis, and the degree of management responsibility may range from “investment supervisory services” to “management services” or may involve only ad hoc consulting on specific issues of concern to the client.

8.2 Investment Supervisory Services

The term “investment supervisory services” is defined in Form ADV as “giving continuous investment advice to a client based on the individual needs of the client. Individual needs include the nature of other client assets and the client’s personal and family obligations.” For purposes of this Compliance Manual, investment advisor representative advising clients under an investment advisory program are required to consider the totality of each client’s financial circumstances before recommending a specific security or investment program to that client, unless specifically directed otherwise by the client.

8.3 Management Services

The term “management services” includes portfolio management where the investment advisory representative usually does not consider the overall financial circumstances of the client before
purchasing or selling a security, but focuses instead on meeting the client’s specific investment objectives.

8.4 Financial Planning and Consulting

Please refer to IA Compliance Communication 15-05 Financial Planning and Consulting Services.

9 Investment Management

9.1 Setting up the Client’s Account

Each investment advisor representative should interview prospective clients, preferably in person, to discuss the various advisory services available through SFA and assist the client in selecting the advisory services appropriate for that client’s investment needs. The investment advisor will also obtain all supporting documents necessary to set up the account, including joint account agreement, margin agreement (if applicable), trading restrictions, authorization to withdraw advisory fees, solicitation disclosures, etc. With respect to joint accounts, the investment advisor representative will confirm that all parties to the account for whom advisory services are being provided have signed the written agreement and the Client Investment Questionnaire. No trading may occur in a client’s account until the written agreement, with supporting documents, and the Client Investment Questionnaire have been completed and signed by the investment advisor representative. The CCO or appropriately qualified designee will review the above information for any exceptions to SFA’s account criteria, on a timely basis.

9.2 Determining Suitability

In setting up an account, the investment advisor representative should obtain the following basic investment information about the prospective client and record such information on the SFA Client Account Form, and the Client Investment Questionnaire (Client Profile) for Strategic Choice accounts:

1. What is the client’s investment objective? Is the client investing for growth, income, or some combination of growth and income?
2. What is the level of the client’s risk tolerance? How much is the client willing to lose in any single investment in relation to his/her total portfolio over a one-year period and still be comfortable?
3. What is the client’s time horizon for investing? Short term trading or long term investing?
4. What are the client’s income and net worth?
5. What would the client like to achieve as a suitable mix of assets?
6. If the target mix changes as the market shifts (market rotation), should the portfolio manager reallocate the mix to fit the new market realities. How often?
7. Does the client prefer to invest only in domestic companies? Should foreign companies be part of the asset mix?

[Note: The SEC considers the above information as minimum requirements for determining client suitability, all of which are included on the Client Investment Questionnaire. See Exhibit 2 for a sample Client Investment Questionnaire.]
Each investment advisor representative’s supervisor will use the above information to monitor the ongoing activity in the client’s account and ensure that such activities are in accordance with the financial requirements and investment objectives shown on the Client Investment Questionnaire and/or obtained and documented in client interviews. Any securities transactions which deviate from the client’s investment objectives will be discussed with the investment advisor representative handling the account. If it appears to the supervisor that such deviations are inconsistent with the client’s stated objectives and are frequent in number, the supervisor will bring the matter to the attention of the CSO or appropriately qualified designee who may, at his/her discretion, consult the client to confirm the accuracy of the information on the Client Investment Questionnaire or included in any other documentation. If the client’s objectives have changed, the CSO or appropriately qualified designee should require an updated questionnaire/documentation before any further trades are entered for the account. In addition to requiring an updated questionnaire, on a client directed trade, the CSO or appropriately qualified designee has the authority to require that the client execute an affidavit for the purchase of any security that is totally inconsistent with the client’s investment objectives. The affidavit will state, in substance, that the client understands that the security in question is inconsistent with the client’s investment objectives and that the order to purchase the security is at the client’s insistence and risk.

9.3 Managing the Client’s Account

It is the responsibility of each investment advisor representative to devote the requisite amount of attention to professionally manage each of his/her accounts in accordance with the investment requirements and objectives of the client. In managing accounts, each investment advisor representative is required to maintain regular communications with his/her clients. At a minimum these communications will include the following:

At least annually, investment advisor representative will undertake a comprehensive review of each of his/her accounts to assess the client’s financial situation and individual investment needs. In addition, each representative should determine, on a quarterly basis, whether there have been any changes in any client’s investment objectives or financial circumstances as shown in the Client Investment Questionnaires and/or documentation. All updated information will be maintained in the client’s files.

In addition to the daily review of executed order memoranda or equivalent report, the CSO or appropriately qualified designee will review the activity in sample accounts at least quarterly to determine if the account has been managed in a manner consistent with the client’s investment objectives. The CSO or appropriately qualified designee shall have the independent authority to discuss any questionable activities in any account with the respective client.

SFA will provide each client with a quarterly review and analysis of his/her account and provide any additional information on the account which may be requested by the client.

9.4 Monitoring Account Activity

After an account has been approved for a specific investment program, the investment advisor representative’s supervisor will monitor the trading activities in the account to monitor that the securities purchased or sold are consistent with the client’s investment objectives. The supervisor will also look for any evidence of excessive trading or conflicts of interest between the
investment advisor representative and the client. At least annually, the supervisor will review client files to determine that all information and supporting documents are current and complete.

9.5 Termination of Accounts

Every client has the right to terminate his/her advisory agreement(s) with SFA at any time upon written notice. Inasmuch as advisory fees are billed in advance for services previously rendered, client accounts will be charged for earned but unpaid advisory services, prorated on a daily basis at the same percentage rate as that used to determine their quarterly advisory fee. Any pre-paid advisory fees will be prorated to the date of termination and any unearned advisory fees will be promptly returned to the client, less any closing fees specified in the specific agreement.

10 Prohibited Transactions

10.1 Agency and Principal Cross Transactions

It is the policy of SFA that all orders be executed by our clearing firm on an agency basis. At no time will SFA effect a cross trade between clients.

10.2 “Front Running”

An investment advisor representative is not permitted to benefit from placing his personal securities trades, or those of any associated persons, “in front of” the client’s order to buy or sell thereby receiving a better price than the client. Any investment advisor or associated person’s orders being executed for the same security as that of his/her clients must be documented at the time of entry and execution of the orders to show that no front running has occurred.

10.3 Conducting Business in States where not Registered

Most states have regulations requiring registrations and/or educational testing of investment advisory representatives who conduct investment advisory business in their respective states. Before an investment advisor representative opens an account in a state where he/she is not registered, the investment advisor representative must contact the CCO or appropriately qualified designee to determine the registration requirements of that state.

10.4 Diverted Opportunity

Investment advisor representatives may not appropriate for themselves a trading opportunity that could rightfully go to their clients. This situation typically occurs when a limited investment opportunity, such as a thinly traded security, is purchased for the investment advisor representative’s personal account although the security was suitable for client accounts. If the security appreciates in value, there may be the perception that the representative diverted the investment opportunity to his own account at the client’s expense. In addition to the various trading restrictions imposed on associates of SFA discussed later in Section 13, Conflicts of Interest, the CCO or appropriately qualified designee should be alert for situations where investment advisor representatives may be purchasing highly speculative or thinly traded securities.
securities for their personal accounts.

10.5 Holding Client Funds or Securities

Associates of SFA are prohibited from ever holding customer funds or securities or acting in any capacity as custodian for a client account. Checks made payable to an account custodian must be forwarded to the custodian immediately. However, stock certificates endorsed over to client custodian, must be returned to the client within three business days. Associates are not permitted to “accommodate” clients by forwarding stock certificates to the client custodian(s). However, associates may accompany clients to their respective custodian(s) for hand-delivery by the client of his/her stock certificates. Associates should never accept possession of client securities for safekeeping, or hold client checks in excess of three business days pending pick up by client. Moreover, no associate is permitted to borrow money or securities from any SFA client, nor are associates permitted to lend money to any client, unless approved in writing by the CCO or appropriately qualified designee or a senior principal of SFA.

11 Limited Partnerships

It is the policy of SFA to not act a general partner, co-general partner, or managing member of a limited partnership. For purposes of this section, LLCs are treated the same as limited partnerships.

12 Conflicts of Interest

12.1 Personal Securities Transactions

Because SFA and its associates have a fiduciary relationship to clients, there is an affirmative duty not to overreach or disadvantage any client or otherwise take unfair advantage of his/her trust. With respect to personal securities transactions, clients may be disadvantaged when an associate executes a personal trade ahead of pending client transactions in the same security or when an associate purchases an over-subscribed initial public offering rather than distributing the shares to client accounts.

The trading records required under Rule 204-2(a) (12) are intended as a means of bringing inappropriate trading practices to light. For this reason, the CSO or appropriately qualified designee will monitor the personal securities transactions of all SFA associates to help ensure that such persons are fulfilling their fiduciary responsibilities to SFA clients. In addition to monitoring securities transactions, the CSO or appropriately qualified designee will take all reasonable steps to determine that all associates of SFA comply with the trading restrictions specified below in Section 12.2.

12.2 Trading Restrictions

Personal securities transactions by SFA advisory representatives/employees are subject to one or more of the restrictions listed below.

a. Active Trading by Advisory Representatives for their own Accounts
In order to avoid any potential conflict of interest between SFA and its clients, securities transactions for the accounts of advisory representatives of SFA, in the same security as that purchased/sold for advisory accounts, should be entered only after completion of all reasonably anticipated trading in that security for advisory accounts on any given day. If after completion of all anticipated trading for advisory accounts, an advisory representative trade is executed on that day at a better price than that received by an advisory account, the advisory representative will notify the CCO or appropriately qualified designee who will prepare a memorandum detailing the circumstances of the transaction. If, after reviewing the transaction, the CCO or appropriately qualified designee determines that a potential conflict of interest exists, he shall have the authority to make any necessary adjustments, including but not limited to, canceling and rebilling the transaction to such other account(s) as appropriate. Such memoranda and any corrective action taken will be recorded and maintained in SFA’s compliance files. If a transaction is subsequently transferred and rebilled to a client account, the CCO or appropriately qualified designee will prepare a memorandum summarizing the circumstances of the trade, a copy of which will be placed in the client’s file.

b. Quarterly Personal Securities Trading Reports

Personal Securities Trading Reports will be submitted to the CCO or appropriately qualified designee not later than ten calendar days following the end of each calendar quarter. Each report must contain the following information:

- Name of employee;
- Name of the securities purchased or sold, including the number of shares or principal amount if fixed income securities;
- Date and nature of the transaction (i.e., purchase, sale, or other acquisition or disposition);
- Price at which the transaction was effected; and
- Names of the broker/dealer or bank through whom the transaction was effected.

Following submission of the Personal Securities Trading Reports, the CCO or appropriately qualified designee will review each report for any evidence of improper trading activities or conflicts of interest by the reporting person. After reviewing each report, the CCO or appropriately qualified designee will sign and date the report attesting to his/her review. See Exhibit 5, Sample Quarterly Personal Securities Trading Report.

In lieu of manually listing each securities transaction on the Personal Securities Trading Report, an associate may affix (staple) copies of trade confirmations received during that quarter to his/her report.

12.3 Negative Reports

Although Rule 204-2(a)(12) does not require negative reports (reports with no activity), it is the policy of SFA that Personal Securities Trading Reports be submitted quarterly by all advisory representatives whether or not securities transactions have occurred in their accounts during the period. Those persons having no securities transactions must state this fact on their reports, fill in the reporting date and their name, sign and submit the report to the CCO or appropriately qualified designee.
12.4 Reports by Executing Broker/Dealers

All associates of SFA having accounts with any broker/dealer must ensure that the account is established so that duplicate copies of trade confirmations and monthly account statements are submitted directly to SFA by the broker/dealer.

12.5 Personal Securities Transactions and Insider Trading Provisions Under Sections 204A and 206-4

a. Background

The anti-fraud provision of Section 206 of the Investment Advisers Act of 1940 is expressed generally in terms of prohibiting an investment adviser from defrauding his clients or prospective clients. However, the anti-fraud provisions of section 17(a) of the Securities Act of 1933, and Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder, are expressed in all-embracing terms of defrauding any person, directly or indirectly, in the offer or sale of any security or in connection with the purchase or sale of any security.

Like many active market participants, investment advisers may have access to material information that has not been publicly disseminated. The investment adviser may then use such information improperly to effect transactions in securities to the detriment of others in the investing public who may not be his clients or prospective clients. This may be a situation where the investment adviser’s clients are benefiting from the information to the detriment of the investing public.

An investment adviser may be an officer or director of a corporation, an investment company, bank, etc. who, in the ordinary course of business, may receive “inside,” non-public, or confidential information pertaining to securities or their issuers. Non-public information may be obtained through associations with insiders of such entities. In these cases, where non-public information is obtained or received, there is a duty and obligation under the law generally not to trade on such information, until this information becomes public. In other words, such information must be disclosed publicly before trades in those securities can be made.

b. Section 204A

In 1989, Congress enacted the Insider Trading and Securities Enforcement Act (“Insider Trading Act” or “ITA”) in response to the misuse of material non-public information during the Ivan Boesky, Michael Milken, et al. insider trading scandals. Section 204A of the Advisers Act was enacted in response to the ITA to combat the misuse of material non-public information by advisers, their employees, affiliates, or clients through insider trading or otherwise.

Section 204A requires that an adviser establish, maintain, and enforce written policies and procedures reasonably designed to preserve the confidentiality of information; to prevent possible insider trading and the misuse of material, non-public information by the adviser or any person associated with the adviser; and, to punish employees who obtain and trade on such information or disseminate the information to third parties (“tippees”). At the same time, Congress significantly increased the penalties controlling persons are subject to for insider trading by their employees and other persons under their control. The coverage of Section 204A is broader than that of Rule 204-2(a) (12) which applies only to personal securities transactions by an adviser and its advisory representatives.
In addition to establishing 204A procedures, the section requires that the adviser “enforce” the procedures by conducting periodic training for employees on how they might recognize “insider information” or “non-public information” and the steps to be taken if they obtain such information.

In light of the increased focus on insider trading and increased penalties, it is important for an adviser to implement the necessary policies and procedures in order to protect itself against the significant monetary penalties and damage in reputation that may result from an insider trading violation. The SEC has made a review of the required policies and procedures a focal point in its inspections of advisers.

c. Responsibilities of SFA and Employees of SFA Regarding Insider Trading

In meeting the requirements of Section 204A, the CCO or appropriately qualified designee will establish such policies and procedures regarding insider trading as are appropriate to the type of products and services offered through the SFA. In addition, the CCO or appropriately qualified designee will maintain a file folder titled “204A Procedures” containing the policies and procedures, revisions to the procedures with the effective date of each revision, and documentation relating to the training provided for employees. Training will be evidenced by having each employee annually read and sign a log or other record that he/she has read and will adhere to the 204A procedures. This file folder should be current at all times and available for review by regulatory authorities.

The CCO or appropriately qualified designee is responsible for overseeing compliance with insider trading guidelines and providing a resource for giving guidance and answering employee questions. The insider trading policy applies to all employees of SFA who have any knowledge of the securities being traded or access to confidential information. However, all employees of SFA are expected to read and be familiar with the insider trading policies and procedures.

In meeting the requirement to “enforce” the provisions of Section 204A, every employee of SFA will annually sign a disclosure statement attesting to his understanding of his duties and responsibilities regarding the use and/or dissemination of insider information. The CCO or appropriately qualified designee will maintain copies of each employee’s signed disclosure statement. The signed statement of each employee will contain wording to the effect that the employee has read and understands SFA’s insider trading policies, i.e.

d. What Is Insider Information?

By way of example, violations of the insider trading rule that have been cited by the SEC include persons who traded on non-public information / insider trading information such as:

- a company that had made a rich ore find;
- a company that had cut its dividend;
- a company that had sustained its first and unexpected loss;
- a company whose earnings projections showed a substantial increase;
- a company whose earnings projections showed a substantial decrease; and
- a tender offer was to be made for a company’s securities above the market price.
Legal sanctions may be imposed on any of the following parties for trading on non-public information:

- persons inside a company who traded his/her company’s stock on non-public information;
- persons outside the company who traded the stock on non-profit information;
- persons inside the company who told persons outside the company who traded the stock; and
- persons outside the company who told other persons outside the company who traded the stock.

If an employee of SFA, regardless of position, receives information he believes is material non-public information, he/she must convey such information to the CCO or appropriately qualified designee. The CCO or appropriately qualified designee will then make a judgment as to the handling of such information in order to prevent possible charges of 204A insider trading violations. Failure of the employee to disclose such information to the CCO or appropriately qualified designee in a timely manner may result in termination of the employee.

e. Actions Not Deemed to be Insider Trading Policies

Although SFA’s insider trading policy applies to all employees, two divergent sets of circumstances exist under which an investment advisor representative of SFA may receive material, nonpublic information, as well as correspondingly different duties regarding an investment advisor representative’s obligation to achieve public disclosure of the information.

First, an investment advisor representative may receive the information through a special or confidential relationship with an issuer. In that event he may use it only for that purpose (assuming it is lawful) and obviously need not encourage disclosure. Examples include, receiving information as a representative of the underwriter of the issuer (where the issuer is obligated to disclose it to the underwriter), or receiving it as a financial consultant or lender to the issuer. Such relationships very likely may make the analyst and his firm constructive or temporary insiders of the issuer.

Second, an investment advisor representative may receive information from an issuer, although no special or confidential relationship exists between them. In the absence of such a relationship with the issuer, the investment advisor representative should usually make an effort to achieve public disclosure. For example, if an investment advisor representative inadvertently hears an officer tell an outsider by telephone of a significant corporate event, such as a large unannounced quarterly loss, he should encourage the officer to make a public announcement.

f. SFA Policies and Procedures on Insider Trading

The following procedures have been established to assist SFA’s employees in avoiding violations of the insider trading provisions of Section 204A of the Advisers Act. Every employee of SFA must follow these procedures or risk being subject to the sanctions described above. If an employee has any questions about these procedures, he/she should bring such questions promptly to the CCO or appropriately qualified designee.

   (1) Identification of Insider Information
Every employee of SFA must be able to determine if information is material and/or non-public. This determination may be made by asking the following two questions:

- Is the information material? Would an investor consider this information important in making an investment decision? Would disclosure of this information substantially affect the market price of the security?
- Is the information non-public? To whom has this information been provided? Has the information been effectively communicated to the marketplace through publication in any magazine or newspaper of general circulation, or through some other media available to the public?

If, after considering the above, an employee believes that the information may be material and/or non-public, he/she should:

- Report the matter promptly to the CCO or appropriately qualified designee, disclosing all information which the employee believes may be relevant on the issue of whether the information is material and non-public.
- Refrain from purchasing or selling any security about which such information has been received. This prohibition applies to the employee’s personal securities account(s), any account(s) in which he/she may have a beneficial interest, and any client account managed by SFA.
- Not communicate the information to anyone outside the firm or within the firm, other than SFA’s CCO or appropriately qualified designee.

After reviewing the information, the CCO or appropriately qualified designee will determine whether such information is material and non-public and will advise the employee accordingly of the appropriate course of action.

(2) Supervisory Procedures for Dealing with Material Nonpublic Information

The CCO or appropriately qualified designee is essential for the implementation and enforcement of SFA’s procedures against insider trading. The supervisory procedures set forth below are designed to prevent insider trading by SFA’s employees and to detect such trading if it occurs and to provide appropriate sanctions for violations of these procedures.

Steps to Prevent Insider Trading

- Every new employee of SFA will be provided with a copy of these procedures regarding insider trading, receipt of which will be acknowledged.
- The CCO or appropriately qualified designee will enforce the applicable Personal Securities Trading Restrictions provided in this 13 and/or in the Code of Conduct/Ethics of SFA’s Compliance Manual.
- The CCO or appropriately qualified designee will, on a regular basis, conduct training to familiarize employees with SFA’s insider trading procedures. Such training may be held more often for those employees working in areas where they are more likely to receive inside information in the course of their duties.
- The CCO or appropriately qualified designee will be available to assist SFA’s employees
on questions involving insider trading or any other matters covered in SFA’s Compliance Manual.

- The CCO or appropriately qualified designee will resolve issues of whether information received by an employee of SFA is material and non-public.

- The CCO or appropriately qualified designee will review on a regular basis and update as necessary SFA’s Compliance Manual and procedures related thereto.

- If it has been determined that an employee of SFA has received material non-public information, the CCO or appropriately qualified designee will (i) implement measures to prevent dissemination of such information, (ii) place such security on SFA’s restricted trading list, and (iii) immediately advise all employees of the inclusion of the security on the restricted list.

**Steps to Detect Insider Trading**

- The CCO or appropriately qualified designee will review all personal securities transactions by employees to ensure that such activities are in compliance with the applicable Personal Securities Trading Restrictions provided in this and/or in the Code of Conduct/Ethics, Appendix B of SFA’s Compliance Manual.

- The CCO or appropriately qualified designee will review excess trading activities in any client accounts handled by SFA’s investment advisor representatives.

- The CCO or appropriately qualified designee will review the trading activities, particularly excessive trading, in SFA’s proprietary accounts, if any, and

- The CCO or appropriately qualified designee will conduct such investigation, as necessary, when the CCO or appropriately qualified designee has reason to believe that any employee of SFA has received and acted (traded) on inside information or has disseminated such information to other persons.

### 13 Brokerage Practices & Executions

**Introduction**

Section 206, the anti-fraud provision of the Advisers Act, requires that an adviser act in the best interest of its clients and place their interests before his/her own interest. Among the specific obligations is the requirement to obtain the best price and execution for client securities transactions when the adviser is in a position to direct brokerage transactions. In selecting a broker to execute client securities trades, an adviser must consider the full range and quality of broker services, including execution capability, commission rate, value of research provided, financial responsibility, and responsiveness to the adviser. An adviser is not obligated to merely get the lowest possible commission cost, but rather to determine whether the transaction represents the best qualitative executions for the clients’ accounts.

#### 13.1 Best Execution

**Background**

A registered investment adviser has a duty to attempt to obtain the “best execution” for its clients’
securities transactions. Earlier, it was standard procedure to contact the broker/dealers (“B/D”) holding client accounts and request their commission schedules. Under current SEC rules, more documentation is required to show that an adviser is attempting to obtain “best execution.”

In 2001, the SEC adopted two rules to improve (1) public disclosure of order execution and routing practices, and (2) market competition by publicizing the best possible prices for investor orders. Rule 11Ac1-5 (Disclosure of Order Execution Information) under the Securities Exchange Act of 1934 requires market centers to make public monthly electronic reports showing uniform statistical measures of execution quality. Rule 11Ac1-6 (Disclosure of Order Routing Information) under the Act requires broker/dealers that route customer equity and options securities orders to disclose in writing on a quarterly basis, order routing venues among other items. Upon customer request, the broker/dealers must also disclose the routing of specific transactions. Investment managers are expected to be able to obtain useful information from the disclosures required by these rules in evaluating their own trading practices.

What Is Meant by “Best Execution”?

The term “best execution” is meant to include not only commission expense, but to encompass the total cost of the securities transaction. In recent years, the level of understanding of the trading process has progressed in terms of how it can be measured, how it interacts with the selection of securities, and how technology can support the trading of securities.

The concept of “best execution” parallels that of “prudent expert” in intent and practice. Both prudence and best execution may be difficult to quantify, but they can usually be determined. In making this determination for a particular investment advisory practice, an adviser should examine whether the assets were exposed to extraordinary risks and whether the practice deviated from what other managers would most commonly do. Prudence addresses the appropriateness of holding certain securities, while best execution addresses the appropriateness of the methods by which securities are bought or sold. Security selection seeks to add value to client portfolios by evaluating the future of the underlying company; best execution seeks to add value by reducing the cost of execution. Both activities together seek to achieve better investment performance while adhering to standards of prudent fiduciary account management. Since trading is a repetitive, continuous process, each trade communicates information about an adviser’s underlying trading procedures. This information can then be used to evaluate whether an investment manager is consistently seeking to achieve best execution and whether he/she is meeting that objective.

In summary, “best execution” refers to a well-designed trade execution process made with the intention of maximizing the value of client portfolios under the particular circumstances at the time.

What Does All This Mean for an Adviser?

On a quarterly basis, the Operations Manager or appropriately qualified designee will evaluate the broker that the firm uses for executions. As part of this review, the Operations Manager or appropriately qualified designee shall obtain from each executing broker a copy of that B/D’s quarterly “report cards” evaluating the quality of executions provided to all the B/D’s clients (Reports for Execution Quality 11Ac1-5). These reports should be posted on the firm’s website or on finra.org. If a particular B/D doesn’t have the information, or won’t provide it, the
designated manager should document the B/D’s response to show that he/she has made a good faith effort to obtain the data. In addition, the CCO or appropriately qualified designee will receive input from the portfolio managers and/or traders feedback on the services provided by the executing broker.

If a decision is made to cease using a particular executing broker, it is the responsibility of the Operations manager or appropriately qualified designee to ensure that this instruction is carried out.

Factors to Consider in Placing Securities Transactions

In trying to obtain “best execution,” each portfolio manager, or trader, must consider the following factors when placing securities transactions with broker/dealers.

a. Execution Capability

Brokers may have different execution capabilities with respect to different types of orders and securities. For example, some brokers may have good execution capability with respect to large exchange-listed equity block positions, while others are more efficient in the execution of difficult orders in the over-the-counter market, transactions in derivatives, or fixed income securities.

b. Commission Rates

Consideration of the commissions charged by a broker is an integral part of the evaluation of order execution. Commission rates are a function of the size of the order, the price of the security, an adviser’s transaction volume with that broker, and whether the receipt of products or services is involved.

c. Value of Research Provided

Consistent with the obligation of best execution, an adviser may direct portfolio brokerage commissions to a broker or dealer in return for services and research that are used in making investment decisions for client accounts.

d. Responsiveness and Financial Responsibility

In the execution of securities transactions, an adviser’s portfolio managers may consider the broker’s responsiveness to requests for trade data and other financial information. Responsiveness includes such factors as the willingness and ability of a broker to take financial risks in the execution of large block orders or how accommodating the broker is to the trading requirements of SFA.

e. Other Factors for Determining Best Execution

OCIE has suggested the following additional factors for consideration when determining best execution. It is the responsibility of the Operations Manager or appropriately qualified designee
to evaluate each of these factors to ensure SFA is realizing the most favorable cost and brokerage services for its clients under the circumstances.

- The amount of business with each B/D and the justification for directing trades to those brokers-dealers;
- Gross compensation paid to each B/D;
- Competitiveness of commission rates and spreads, including the documentation to support such competitiveness, i.e. comparison of “standard” commission rates or “minimum” transaction costs between B/Ds offering comparable products and services;
- Statistics or other information by independent consultants on relative quality of executions/financial services by B/Ds;
- Financial strength (net capital) of B/Ds;
- Ability to respond promptly to investor/adviser inquiries during volatile markets;
- Accommodation of third-party soft dollar arrangements and step-outs;
- Availability of IPOs to investment advisers for subsequent allocation to clients;
- The ability of the B/D to handle a mix of trades, i.e. block trades and odd lots;
- The willingness and ability of a broker to “work” large or difficult trades for the adviser’s clients so as to obtain best executions;
- Whether advisory client may be inconvenienced or ill-served by the geographical distribution of the B/D offices;
- Whether the B/D is equipped to handle electronic trade entry and reporting links with the adviser;
- The value of privacy considerations, liquidity, price improvement, and lower commission rates on electronic communications networks (ECNs);
- Opportunity costs, i.e., the cost associated with the opportunity to work with a major B/D who may offer a wide variety of products and services. Opportunity cost might also be associated with “boutique” firms which only deal with specialized products;
- Adequacy of B/D’s back office staff to efficiently handle trading activity, especially in volatile or high volume markets;
- Statistics on securities executions and the frequency of trading errors;
- Comparison of transaction costs between directed and non-directed client accounts;
- Products and services obtained (or which are available) from B/Ds that fall outside the soft dollar safe harbor which are not research and benefit only the adviser, not the investors;
- The volume of securities transactions directed to B/Ds who are active in selling shares of funds sponsored or managed by the adviser; and,
- The overall responsiveness of B/Ds, i.e., how well the B/D serves the adviser and its clients.

13.2 **Broker Selection Process**

All managed accounts are held at and trades executed through a clearing firm/broker dealer selected by SFA. SFA will review quarterly, as part of SFA’s Best Execution Evaluation, the clearing firm relationship to assure that it remains in the best interest of SFA’s clients.

13.3 **Trade Management Disclosures**

SFA will disclose its trade management practices as well as its actual and potential trading which might result in a conflict of interest to all current and prospective clients. All disclosures should
be transparent, that is, they should fully, clearly, and accurately portray the information being communicated. These disclosures will be made on the Form ADV.

13.4 Soft Dollar Transactions and Conflicts of Interest

SFA does not accept soft dollar payments.

13.5 Referral of Clients to SFA by Broker/Dealers

If a client is referred to SFA by a registered representative, and the client directs SFA to effect brokerage transactions through that registered representative and his brokerage firm, the client must be advised in writing that SFA may have a conflict of interest between its duty to the client to obtain the most favorable brokerage commission rates available under the circumstances and SFA’s desire to obtain future referrals from that registered representative or brokerage firm.

13.6 Directed Brokerage

If a client directs SFA to use a particular registered representative or brokerage firm, such instructions must be in writing. The client may at any time change such instructions by giving written notice to SFA. It is the responsibility of the associate managing the account to advise the client in writing that as a result of such brokerage, client may pay a higher brokerage commission than might otherwise be paid if SFA had been granted discretion to select a broker to handle the client’s account. If a client directs SFA to use a particular registered representative or brokerage firm, the client will be advised that SFA may be unable to bunch, block, or aggregate his/her trades with those of other clients. The inability to bunch trades may result in the client’s trades being executed at a price different from trades that are bunched and which may be less favorable.

Negotiation of Brokerage Commission Rates

SFA is under a duty to negotiate the most favorable commission rates available for its clients under the circumstances. SFA will use its best efforts to obtain the most favorable rates for the account based on the size and anticipated trading activity in the account. It is the responsibility of SFA to document its. Proper documentation would include a schedule of the broker’s standard commission rate schedule, the best rate available considering the size and type of the account, and the fee schedule available through the managed program.

14 Wrap Fee Programs

14.1 Wrap Fee Programs for Advisers

A wrap fee program is any program under which a client is charged a specified fee or fees for total portfolio management, including brokerage commissions. Sponsors of wrap fee programs are usually broker/dealers who are compensated under these programs for organizing or administering the programs or for selecting or providing advice to clients regarding the selection of professional portfolio managers under the program. Schedule H to the Form ADV is used as the wrap fee disclosure brochure and must be provided to all prospective and current clients by the sponsor or participating adviser in a wrap fee program.
Under a wrap fee program, brokers typically charge an annual flat fee, billed quarterly, based on a percentage of assets under management. The annual fee covers both advisory services and brokerage expenses and provides clients with an investment advisor representative who actively manages the client’s assets. Typically, the broker/dealer monitors the advisor’s performance and provides the client with trade confirmations and monthly or quarterly brokerage statements. Although the broker may be primarily responsible for trade executions, an investment adviser has a duty to provide not only suitable investment advice but also to obtain fair and reasonable brokerage fee arrangements for its clients. Inasmuch as SFA must act in the best interests of its clients, SFA must carefully consider whether a wrap fee is suitable and appropriate for its client prior to entering into such an arrangement.

14.2 Limitations of Wrap Fee Programs

All clients and prospective clients of SFA must be made aware of the following limitations of wrap fee programs, all of which must be disclosed in the respective ADV Part 2A Appendix 1.

- Wrap fee programs may not be suitable for all investment needs, and any decision to participate in a wrap fee program should be based on the client’s individual financial circumstances and investment goals.
- The benefits under a wrap fee program depend, in part, upon the size of the client’s account and the number of transactions likely to be generated in the account. For example, wrap accounts may not be suitable for accounts with little activity or accounts comprised principally of fixed income securities.
- Participating in a wrap fee program may cost more or less than the cost of purchasing such services separately from the broker or dealer.
- SFA receives compensation as a result of the client’s participation in a wrap program.
- SFA may have a financial incentive to recommend wrap programs over other programs and services.

14.3 Wrap Fee Disclosures Required of Sub-Advisers

Advisers who do not sponsor wrap-fee programs but participate in the programs as portfolio managers or sub-advisers are still required to disclose their activities on Part II of Form ADV. However, advisers and sub-advisers are only required to furnish clients and prospective clients in wrap fee programs a copy of Schedule H of Form ADV, unless the advisers also provide other services covered under the Advisers Act, in which case copies of Part 2A Appendix 1 must also be provided.

14.4 Other Disclosures

In 1997, the SEC adopted Rule 3a-4 of the Investment Company Act of 1940 which provides a non-exclusive safe harbor to remove certain similarly managed accounts from the definition of an investment company. As discussed earlier, the rule requires that each client receive individualized investment treatment. Evidence of such treatment may be shown by meeting the following provisions of Rule 3a-4:

- Each client account must be managed on the basis of the client’s financial situation and investment objectives and any reasonable investment restrictions the client may impose;
- The program sponsor must obtain sufficient client information to be able to provide
individualized investment advice to the client;

- The sponsor and the investment advisor must be reasonably available to consult with the client;
- Each client must be able to impose reasonable investment restrictions on the management of the account;
- Each client must receive a quarterly statement with a description of all account activity; and,
- Each client must retain certain indicia of ownership of the securities and funds in the account, including but not limited to the ability to withdraw securities and vote securities.

Rule 3a-4 conditions should be carefully considered to ensure that wrap fee arrangements do not result in a finding that such arrangements have created an unregistered investment company.

15 Marketing/Performance Calculation

15.1 Policy Regarding Marketing/Performance

It is SFA’s policy not to market or advertise managed account performance.

16 Compensation/Client Fees

16.1 Advisory Fees Based on Assets under Management

Fees for advisory services are set forth in SFA’s Form ADV which will be given to each client and prospective client prior to entering an advisory relationship. In addition, the client will execute a written agreement that explains the fees and the manner in which the fees will be computed.

If the fees are to be automatically deducted from the client’s account, the client must provide written authorization for such withdrawals as provided in the written agreement or by a separate written agreement which permits the fee to be paid directly from the client’s account.

At inception and quarterly, random accounts will be selected for verification purposes and performed for both managed account platforms. These calculations will be processed based off of the following criteria: account value, times the number of days in the quarter, divided by the number of days in the year, times the fee set forth in the strategic choice fee agreement. The random selections would include: newly established accounts, accounts with adjustments due to weighted events from the previous quarter, select advisors and/or clients, and any other factor that would warrant such a check. Two sets of verifications are performed:

Inception Managed Account Verification

- Account properly set up with correct fee schedule
- Correct start date (if new billing otherwise full upcoming quarter)
- Household/blending set up if applicable
- Verification of weighted events if applicable
- Proper notification set up

Quarterly Managed Account Verification

Verifications noted above are performed. In addition, accounts will be checked to insure the
Manual calculation of the fee charged to the client using the correct fee schedule set up for account

Manually calculate the advisor fee based on the fee schedule established and set up

Verifications will be performed on various accounts and any corrections will be processed in a timely manner.

### 16.2 Advisory Fees Based on Portfolio Performance

SFA will not accept compensation for managing client assets based on the capital appreciation in the client’s account. SFA may share in performance-based fees charged by third-party asset managers as a component of a solicitor’s arrangement. Any such arrangement will be disclosed in the Solicitor’s Disclosure Statement provided to the client.

### 17 Client Referrals

#### 17.1 Cash Payments for Client Solicitation - Rule 206(4)-3

Rule 206(4)-3 of the Advisers Act permits the payment of cash referral fees to individuals and companies (hereafter, “solicitors”) who recommend prospective clients to a registered investment adviser. The Rule provides, among other things, that there be a written agreement between the adviser and the solicitor which clearly defines the duties and responsibilities of the solicitor with respect to his/her referral activities on behalf of the adviser. In addition to the agreement between the adviser and the solicitor, the solicitor must also prepare a written disclosure document which explains to the prospective client the terms under which the solicitor is working with the adviser and the fact that he/she is being compensated for the referral activities. It is the responsibility of the CCO or appropriately qualified designee to ensure that the activities of any solicitor working on behalf of SFA be carried out pursuant to a written agreement which complies with the provisions of Rule 206(4)-3. In addition, the CCO or appropriately qualified designee must exercise due diligence to determine that the solicitor is acting in conformity with the written agreement with SFA, including any specific instructions issued by SFA.

#### 17.2 Requirements under Rule 206(4)-3

There are three basic sets of documents necessary to establish effective internal and external controls over the solicitation of clients for advisory services under Rule 206(4)-3 of the Advisers Act. These three documents are (1) the written solicitation agreement, (2) the solicitor’s written disclosure document and (3) the adviser’s instructions to the solicitor.

a. **The Written Solicitation Agreement**

The written solicitation agreement is an agreement between the adviser and the solicitor and is generally not given to prospective clients. The written solicitation agreement should detail the activities to be conducted by the solicitor on behalf of the investment adviser and the compensation to be paid to the solicitor for client referrals. The agreement should also contain a stipulation that the solicitor will provide prospective referral clients a copy of the advisers ADV or other disclosure document at the time of the solicitation. At this time, SFA does not engage solicitors and has no such agreements in place.
b. **The Solicitor’s Written Disclosure Document**

The solicitor’s written disclosure document must be given to prospective clients at the time of solicitation. Although this statement is to be given by the solicitor, a second copy may also be given by the adviser to the prospective clients at the time of entering into the advisory agreement. The document must disclose:

- The name of the solicitor;
- The name of the investment adviser to whom clients are being referred;
- The nature of the relationship between the adviser and the solicitor, i.e., an affiliation between them such as common control or ownership;
- A statement that the solicitor is being compensated for referring the client to the adviser;
- The terms of the compensation arrangement between the adviser and the solicitor; and,
- Whether or not the client is going to have to pay more in fees than he/she would otherwise have to pay had there been no solicitor’s compensation.

c. **Instructions to Solicitor**

An adviser’s instructions to a solicitor list those specific activities (or the prohibition of certain activities) which the solicitor must follow in conducting his/her referral activities on behalf of adviser. The instructions should require that the solicitor not only comply with the adviser’s instructions, but also with the provisions of the Advisers Act.

If the proposed Solicitor is not a registered investment adviser, investment adviser representative or a bank, then the proposed Solicitor must complete a Form U4, Items 1 (general information), 10 (other names), 12 (employment history), 13 (other business) and 14 (Disciplinary); provide a W-9; provide a copy of a valid government issued photo identification; and, submit to a criminal background check if requested. SFA will conduct its customary CIP verification and OFAC review on each proposed Solicitor.

Where the Solicitor is an investment adviser representative of another registered investment adviser, the Solicitor’s Agreement must be executed between SFA and the other investment adviser.

Solicitor arrangements pertain only to advisory fees. Solicitor’s fees are not paid on commissionable transactions (i.e., broker/dealer business).

It is important to consider and disclose the conflicts of interests which are created by the payment and/or receipt of solicitor’s fees. The compensation may eliminate or hamper the independence of the referring professional. For example, a CPA receiving referral fees for advisory services would not be deemed to be an independent tax advisor should the referred client purchase a tax-advantaged investment through SFA.

The CCO or appropriately qualified designee has an affirmative duty to ensure that the solicitor has complied with, and is complying with, the terms of the written agreement and should be able to demons