



## ESI Financial Advisors

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July 7, 2017

Form ADV, Part 2A - Appendix 1

### Item 1 – Cover Page

This wrap fee program brochure provides information about the qualifications and business practices of Equity Services, Inc. doing business as ESI Financial Advisors. If you have any questions about the contents of this Brochure, please contact us at 1-800-344-7437 and/or [Securities\\_Resource\\_Services@nationallife.com](mailto:Securities_Resource_Services@nationallife.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

ESI Financial Advisors is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information about which you determine to hire or retain an Adviser.

Additional information about ESI Financial Advisors also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Item 2 – Material Changes

There have been no material changes to ESI Financial Advisors' Form ADV 2A – Appendix 1 brochure since its last annual amendment, dated March 30, 2017.

Currently, our Brochure may be requested by contacting ESI Financial Advisors at 1-800-344-7437 or via email to [Securities\\_Resource\\_Services@nationallife.com](mailto:Securities_Resource_Services@nationallife.com). Our Brochure is also available, free of charge, on our web site [www.Equity-Services.com](http://www.Equity-Services.com).

Additional information about ESI Financial Advisors is available via the SEC's web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's web site also provides information about any persons affiliated with ESI Financial Advisors who are registered as investment adviser representatives of ESI Financial Advisors.

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## Item 4 – Services, Fees and Compensation

Equity Services, Inc. (“ESI”) is a registered broker/dealer, as well as a federally-registered investment adviser, doing business as ESI Financial Advisors (“EFA” or “the Firm”). Equity Services, Inc. was founded in 1968 as an affiliate of National Life Insurance Company (“National Life”), which began doing business in 1848. NLV Financial Corporation is the sole shareholder of Equity Services, Inc., and the National Life Group companies, which include National Life Insurance Company, Life Insurance Company of the Southwest, and companies providing various services related to investment company securities branded as “Sentinel Investments.” EFA provides financial planning/consulting services and asset management services to individuals, corporations, trusts, estates, charitable organizations, and retirement plans including pension and profit sharing plans. EFA has been registered with the SEC since 1992. As of 12/31/2016, the Firm managed approximately \$1 billion in non-discretionary assets and approximately \$76 million in discretionary assets across all of its advisory programs.

Before investing in an advisory program, clients should decide if they are comfortable delegating the day-to-day management of their account(s). Investors in advisory programs typically:

- Desire advice and guidance when making investment decisions;
- When working with a discretionary manager, are at ease with a financial professional making their day-to-day investment decisions;
- Are willing to follow a disciplined investment strategy;
- Are comfortable paying quarterly, asset-based (percentage) fees for investments and advice rather than individual commissions or sales charges.

EFA offers a variety of advisory programs, many of which engage the services of third-party asset managers (“TPAM”) with discretionary trading authority, and some in which the client is required to authorize some or all trading activity in their account. **Clients should ensure they understand the nature of their advisory agreement with EFA and any other TPAM they may engage to provide asset management and/or financial planning services.**

### ESI Directions

EFA has established an asset management program called ESI Directions (“Directions”). Directions accounts may hold assets such as stocks, bonds, options, mutual funds, exchange-traded funds (“ETFs”), unit investment trusts, certificates of deposit, and structured products. Clients may include individuals, pension and profit sharing plans, trusts, estates, or charitable organizations, corporations or other business entities.

Under the Directions program, the client and the Investment Adviser Representative (“advisory representative” or “IAR”) compile pertinent financial and other information to develop an investment program designed to meet the client’s goals and objectives. The advisory representative uses a system provided by Envestnet, a third party vendor, to analyze the client’s information, and recommends an appropriate strategy and asset allocation, called an “investment model”. The investment model is based on the client’s needs and objectives, investment time horizon, risk tolerance and any other pertinent factors. The advisory representative then recommends securities that correspond to the recommended investment model. Advisory representatives across EFA may make

different recommendations for the same investment strategies. Advisory representatives that qualify to participate in Directions utilize a research service that provides company- and fund-specific research from third-party providers.

ESI Directions accounts established prior to March 30, 2016 have not permitted the Firm nor its advisory representatives to exercise investment discretion. However, the owner(s) of such accounts may elect to grant discretion, under the parameters listed below, by providing written authorization in a form acceptable to the Firm.

ESI Directions accounts established after March 30, 2016 grant the Firm discretionary trading authority, under the parameters listed below:

The discretionary investment and trading authority given to EFA, meaning the rebalancing of the existing holdings in a client's account through purchasing and selling securities without first obtaining the client's express permission, may occur in the circumstances described below:

- Executing transactions in the account for the purpose of rebalancing the portfolio back to within the client's risk tolerance, as determined by the latest Investor Profile Questionnaire on file with the Firm;
- Executing transactions when concerned that a variance may result because an account's risk score has changed;
- Using discretion as to the time the Firm will make a trade in the account and the price paid for securities in accordance with the Firm's obligation for best execution.

In no instance do either EFA or the IAR have authority to choose or change the client's investment objective. Additionally, neither EFA nor the IAR may introduce new holdings to the portfolio without the client's express permission.

The discretionary investment and trading authority given to EFA can be exercised by the Firm and/or its Investment Adviser Representative at any time and without prior notice to the client. All clients (discretionary and non-discretionary) receive quarterly statements from NFS, detailing activity in their account(s). Clients should carefully review their statements upon receipt. Questions regarding trading activity should be directed to their Representative.

Advisory representatives recommend securities to clients on the basis of the client's individual financial situation. Each client selects the account's investment objective and has the opportunity to impose reasonable restrictions on the recommendations the advisory representative makes to the client. Additionally, clients are offered an investment review by the advisory representative, at least annually. On a quarterly basis, they are reminded to confirm the accuracy of their information, and to determine if there are any changes to their investment objectives or restrictions. The advisory representative is available to answer any questions, and to implement any changes the client may request as a result of changes in their finances, personal circumstances, or the financial markets.

EFA's Directions program provides clients with a range of investment advisory services. EFA, the advisory representative, and Envestnet each provide certain services to the program (Envestnet and EFA are not affiliated). These services include:

- Assessment of the client's investment needs and objectives;
- Recommendation of an investment model;
- Development of an asset allocation designed to meet the client's objectives;
- Identification of securities that are suitable given the client's goals;
- Evaluation of securities meeting the investment model and allocation criteria;
- Review of client accounts to ensure adherence to policy guidelines and asset allocation;
- Recommendations for account rebalancing, if necessary;
- Online and paper reporting of client account(s) performance and progress; and
- Provision of custody, trade execution, and confirmation and statement generation, through National Financial Services, LLC ("NFS").

Upon acceptance of an account, EFA will provide the client, by and through an advisory representative, some or all of the above referenced advisory services. Though all of the above-referenced services may be offered, the client may select one or more of the services. EFA does not require the client to utilize all services offered.

Recommendations may include mutual funds affiliated with EFA ("Affiliated Funds"). Investing in an Affiliated Fund results in additional compensation being paid to EFA and/or one of its affiliates. In many cases, alternate funds available under the program can provide the account with substantially similar exposure to the asset class or sector represented by an Affiliated Fund.

### **What Clients Should Know About Advisory Accounts**

When making the determination of whether one of EFA's advisory programs is appropriate for their needs, clients should bear in mind that fee-based accounts, when compared with commission-based accounts, often result in lower transaction costs during periods when trading activity is heavier, such as the year an account is established. However, during periods when trading activity is lower, such fee-based accounts may result in a higher annual cost for transactions. Thus, depending on a number of factors, the total cost under a fee account versus a commission account can vary significantly. Factors which affect the cost of maintaining an account include account size, amount of turnover within the account, type and quantities of securities purchased or sold, commission rates, and the client's tax situation.

Clients should discuss the program with their advisory representative and read this Appendix 1 carefully, as it explains this program in detail.

### **Program Fees**

Fees charged may not exceed the schedule provided in this brochure. Fees are negotiable and assessed on an individual basis according to methods disclosed to and agreed upon in advance with the client via the Statement of Investment Selection (hereinafter referred to as "Agreement"). When determining fees charged for services provided, the advisory representative considers, among other factors, the complexity of the work performed, time involved, degree of responsibility of the advisory representative, special needs and characteristics of the client, and the types of investments. Fees are payable quarterly in advance.

Fees charged may be more or less than if a client paid separately for investment advice, brokerage and other services, or when compared to other available programs, subject to a number of factors, such as the level of trading in a client's account, and the cost of services, if provided separately. The advisory representative receives a portion of the advisory fee charged to the client, and this compensation may be more or less than the compensation the advisory representative would have received if the client had participated in other programs or paid separately for advice, brokerage, and other services. This portion ranges from 0% to 95% of the advisory fee, based on the advisory representative's compensation schedule with EFA. The advisory representative could have a financial incentive to recommend a wrap fee program over other programs or services.

New accounts opened during the first or second month of the quarter are billed initially for the days from inception to the end of the quarter, based on the inception value. New accounts opened during the last month of the quarter are initially billed for the days from inception to the end of the month, plus the next full quarter. The initial payment will become due in full on the date the account is accepted, and will be based on the account asset value as of that date. Subsequent quarterly fees will be calculated based upon the account value as of the closing date of the quarter that just ended.

Fee adjustments for withdrawal of funds in one quarter will be made in the following quarter. If NFS is the custodian of the client's account, cash balances in taxable accounts will be held in Fidelity Prime Fund (FDAXX) and cash balances in retirement accounts will be held in Fidelity Cash Reserves (FDRXX), unless a different election is made by the client.

Any fee owed pursuant to the terms of the Agreement will be deducted from the client's account. All fees paid will be reported to the client on the quarterly statements.

A portion of the annual advisory fee charged by EFA will be paid to NFS for administration of the account. The cost of the program will typically range from 25 bps (0.25%) to 50 bps (0.50%), based on the account value, depending on whether transaction fees are included in the program or charged to the advisory representative.

The standard fee schedule for the Directions program is as noted below. However, clients are able to negotiate a different rate with the advisory representative, not to exceed the maximums listed below:

**Fee Schedule**

<u>Assets</u>	<u>Maximum Annual Fee</u>
First \$249,999	2.5%
\$250,000 - \$499,999	2.0%
\$500,000 - \$999,999	1.5%
\$1,000,000 and Over	1.2%

The program fee does not cover certain charges associated with securities transactions in clients' accounts, including: (i) dealer markups, markdowns or spreads charged on transactions in over-the-counter securities; (ii) costs relating to trading in certain foreign securities; (iii) the fees and expenses imposed by mutual funds and closed-end funds,

unit investment trusts, exchange-traded funds or real estate investment trusts (such as operating expenses, management fees, redemption fees, 12b-1 fees and other fees and expenses as stated in the fund's prospectus or offering document); (iv) the charge to carry tax lot information on transferred mutual funds or other pooled funds, postage and handling charges, returned check charges, transfer taxes; stock exchange fees or other fees mandated by law, and (v) any brokerage commissions or other charges, including contingent deferred sales charges ("CDSC"), imposed upon the liquidation of "in-kind assets" that are transferred into the program. Liquidation of in-kind assets may cause tax consequences. Clients should consult their tax advisor accordingly.

A client may incur redemption fees when the advisory representative and the client determine to sell shares of a security before the expiration of the security's minimum holding period. Depending on the length of the redemption period, the particular investment strategy, and/or market circumstances, the advisory representative and the client may be able to minimize any redemption fees when it is reasonable to allow a client to remain invested in a security until the minimum holding period expires.

The program fee does not cover certain fees that may be charged to clients by the custodian. Clients may also pay for specific account services, such as ACAT transfers, electronic fund and wire transfer charges, and for other optional services elected by clients. Accounts may be subject to transaction-based ticket charges assessed by the custodian for the purchase and sale of securities and certain mutual funds. Similarly, the program fee does not cover certain non-brokerage-related fees such as individual retirement account ("IRA") trustee or custodian fees, tax-qualified retirement plan account fees, and annual or termination fees for retirement accounts (such as IRAs).

Some mutual funds assess redemption fees to investors upon the sale of their funds within a specified time period after purchase. Depending on the particular mutual fund, this may include sales charges for rebalancing purposes. Please see the specific mutual fund's prospectus for detailed information regarding such fees. Certain applicable fees may be avoided through the selection of mutual fund share classes which are not subject to such applicable fees, if clients are eligible for such reduced fee share classes.

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

The minimum account size to participate in the Directions program is generally \$100,000. The minimum account size is subject to increase or decrease at EFA's discretion based upon the circumstances of each client.

Clients may include individuals, corporations, trusts, estates and charitable organizations. The Firm may prohibit anyone or any account type from investing in any of its advisory programs if it believes the recommended program is not an appropriate investment strategy for the client.

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

EFA has contracted with Envestnet to provide performance reporting, fee calculation and billing, and to generate suggested rebalancing trades for the client's account. Envestnet generates a Time Weighted Rate of Return ("TWRR"), calculated net of all fees, for each account. This information is included on the client's Quarterly Performance Report.



EFA does not monitor or measure ongoing advisory representative performance information or calculate investment performance on a uniform basis. EFA does not monitor or review performance data for accuracy.

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

EFA does not charge any performance-based fees (fees based on a share of capital gains or capital appreciation of the assets of a client).

### **Methods of Analysis, Investment Strategies and Risk of Loss**

EFA's advisory representatives generally use technical and/or fundamental analysis when analyzing securities. Technical analysis generally involves studying trends and movements in a security's price, trading volume, and other market-related factors in an attempt to discern patterns. Fundamental analysis generally involves assessing a company's or security's value based on factors such as sales, assets, markets, management, products and services, earnings, and financial structure. Sources of information for analysis include research material acquired from outside vendors, financial newspapers and magazines, annual reports, prospectuses, filings with the SEC and company press releases.

Investment strategies used to implement investment advice to clients may include: long term purchases (securities held at least a year), short term purchases (securities sold within a year), trading (securities sold within 30 days), margin transactions, and option writing.

EFA will utilize certain asset allocation tools and investment research materials prepared by third-party investment advisers in constructing an appropriate asset allocation for a client and in monitoring the performance of the investment portfolio selected.

Investing in securities involves several risks of which clients should be informed, and prepared to bear, prior to investing. The list below explains the various forms of risk associated with investing in securities:

*Common stocks* may decline significantly in price over short or extended periods of time. Price changes may occur in the market as a whole, or they may occur in only a particular country, company, industry, or sector of the market. In addition, the types of stocks in which a particular fund invests, such as value stocks, growth stocks, large-capitalization stocks, mid-capitalization stocks, small-capitalization stocks and/or micro-capitalization stocks, may underperform the market as a whole. In addition, growth stocks can be more volatile than other types of stocks. Value stocks can continue to be undervalued by the market for long periods of time. Additionally, dividends paid on common stocks can vary significantly over the short-term and long-term. Dividends on common stocks are not fixed, but are declared at the discretion of an issuer's board of directors. There is no guarantee that the issuers of common stocks in which a portfolio invests will declare dividends in the future or that if declared they will remain at current levels or increase over time.

*Fixed income* risks include credit risk, interest rate risk, and high yield risk.

*Credit risk* is the risk that an issuer of a debt security will be unable to make interest and principal payments when due and the related risk that the value of a security may

decline because of concerns about the issuer's ability to make such payments. Credit risk may be heightened for portfolios that may invest in "high yield" securities.

*Interest rate risk* is the risk that the value of a portfolio will decline because of rising interest rates. Interest rate risk is generally lower for shorter-term investments and higher for longer-term investments. Duration is a common measure of interest rate risk. Duration measures a bond's expected life on a present value basis, taking into account the bond's yield, interest payments and final maturity. The longer the duration of a bond, the greater the bond's price sensitivity to changes in interest rates.

*High yield, or below investment grade securities* may be more susceptible to real or perceived adviser economic conditions than investment grade securities. In addition, the secondary trading market for below investment grade securities may be less liquid. High yield securities generally have more volatile prices and carry more risk to principal than investment grade securities.

*International Investing Risk* is the risk associated with investing in securities or issuers in markets other than the United States. Foreign issuers may be subject to risks not typically associated with U.S. companies, such as: currency risk, risks of trading in foreign securities markets, and political and economic risks.

*Currency Risk* is associated with the trading of securities in currencies other than the U.S. dollar. Because foreign securities generally trade in currencies other than the U.S. dollar, changes in currency exchange rates will affect an account's value, the value of dividends and interest earned, and gains and losses realized on the sale of securities. A strong U.S. dollar relative to these other currencies will adversely affect the value of account.

*Foreign Securities Market Risk* is the risk that securities of many non-U.S. companies, or U.S. companies with significant non-U.S. operations, may be less liquid, and their prices more volatile, than securities of comparable U.S. companies. Securities of companies traded in many countries outside the U.S., particularly emerging markets countries, may be subject to further risks due to the inexperience of local investment professionals and financial institutions, the possibility of permanent or temporary termination of trading, and greater spreads between bid and asked prices for securities. In addition, non-U.S. stock exchanges and investment professionals are subject to less governmental regulation, and commissions may be higher than in the U. S. Also, there may be delays in the settlement of non-U.S. stock exchange transactions.

*Political and Economic Risks* are a factor when investing in international companies due to varying levels of stability in political, social, or economic factors in the country of the issuer of a security, the difficulty of predicting international trade patterns, the possibility of the imposition of exchange controls, expropriation, limits on removal of currency or other assets, and nationalization of assets.

Additionally, income from foreign issuers may be subject to non-U.S. withholding taxes. Non-U.S. companies generally are not subject to uniform accounting, auditing, and financial reporting standards or to other regulatory requirements that apply to U.S. companies; therefore, less information may be available to investors about non-U.S. issuers. In addition, some countries restrict foreign investment in their securities

markets, which may limit or preclude investment in certain countries or may increase the cost of investing.

The above risks may be particularly significant in emerging markets countries. To the extent an account invests in depositary receipts, it will be subject to the same risks as when investing directly in foreign securities.

### **Voting Client Securities**

As a matter of firm policy and practice, EFA does not have any authority to and does not vote proxies on behalf of advisory clients. Clients retain the responsibility for receiving and voting proxies for any and all securities maintained in client portfolios. Upon request of the client, EFA may provide advice to clients regarding the clients' voting of proxies.

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

Not Applicable.

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

There are no restrictions placed on a client's ability to contact their advisory representative.

### **Item 9 – Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of EFA or the integrity of EFA's management. ESI is a registered broker/dealer as well as a federally-registered investment adviser doing business as EFA.

- The Financial Industry Regulation Authority ("FINRA") alleged, in an amended complaint, that while Equity Services, Inc. ("ESI"), required its registered representatives to maintain anti-virus software on their computers, it failed to adopt written policies and procedures that were reasonably designed to ensure representatives' compliance with this directive.

Without admitting or denying the findings, ESI signed a letter of acceptance, waiver and consent. In accordance with the terms of the settlement, ESI consented to the imposition of a fine in the amount of \$20,000. The settlement was accepted by FINRA on December 6, 2012.

- The Financial Industry Regulation Authority ("FINRA") alleged that Equity Services, Inc. ("ESI"), in its capacity as a broker-dealer, made unsuitable sales of an unregistered private placement securities to five non-accredited retail investors. It was also alleged that ESI failed to enforce its written supervisory procedures relating to suitability and the sale of private placements.

Without admitting or denying the findings, ESI signed a letter of acceptance, waiver and consent. In accordance with the terms of the settlement, ESI consented to the imposition of a fine in the amount of \$50,000, and it was

ordered to pay \$163,815 plus interest, in restitution to four customers. The settlement was accepted by FINRA on November 2, 2011.

- The Securities and Exchange Commission (“SEC”) alleged that ESI failed to provide asset allocation monitoring services to certain of its advisory clients from 2001 until the Summer of 2005.

Without admitting or denying the allegations related to the matter, ESI consented to the entry of the order whereby ESI was censured, and ordered to cease and desist from committing or causing any violations and any future violations of the Investment Advisers Act. ESI was ordered to pay a civil penalty in the amount of \$300,000. The fine was paid December 17, 2009.

- The National Association of Securities Dealers alleged that: 1) ESI associated persons received improper non-cash compensation from an unaffiliated insurance company; 2) ESI failed to maintain adequate records of non-cash compensation from other offerors; 3) ESI associated persons received improper non-cash compensation from National Life Insurance Company; 4) ESI’s supervisory system and written policies and procedures regarding non-cash compensation were inadequate; and 5) ESI violated e-mail retention requirements.

ESI was fined \$350,000, and ordered to conduct a comprehensive review and certification of policies and procedures related to non-cash compensation within 90 days of the acceptance, waiver, and consent. The fine was paid June 12, 2007.

## **Item 10 – Other Financial Industry Activities and Affiliations**

ESI is registered as a broker-dealer with the SEC, FINRA and all fifty states. ESI devotes a substantial portion of its time and derives a substantial portion of its revenue from its operations as a broker-dealer. As a broker-dealer, ESI offers the following investment products: mutual funds, unit investment trusts, variable annuities and variable life products, indexed annuity products, direct participation programs, real estate investment trusts, and structured CDs. ESI also acts as the distributor of variable insurance products underwritten and issued by National Life Insurance Company.

EFA is under common control with the following companies: Sentinel Financial Services Company, a registered broker-dealer and distributor of the Sentinel Funds; and Sentinel Asset Management, Inc., a registered investment adviser, which manages the Sentinel Funds and offers services to mutual funds, institutions and individual clients. Sentinel Funds are among those available for use in EFA’s proprietary advisory programs (including ESI Directions).

EFA is an affiliate of National Life Insurance Company (“National Life”). Most of EFA’s registered and advisory representatives are also life insurance agents of National Life. National Life provides space and certain other services to EFA.

Life Insurance Company of the Southwest (“LSW”) is an affiliated insurance company that offers fixed annuity products. Many of EFA’s advisory representatives are appointed with LSW to sell fixed products.

EFA and its affiliates receive, in the aggregate, more revenue in connection with the sale of affiliated products, including those offered through the Directions platform, than unaffiliated products. Specifically, EFA receives additional compensation with respect to the sales of securities issued by Sentinel Funds. This additional revenue often comes in the form of investment advisory fees, shared revenue based on assets under management, administrative, transfer agency, distribution, and/or other fees for services provided by affiliates of EFA in support of affiliated products. Thus, EFA has an incentive to offer affiliated products over unaffiliated products. As a result, the Firm faces a conflict of interest to the extent that it has incentive to promote certain programs over others which may offer substantially similar investment objectives.

Unaffiliated third-party asset managers (“TPAMs”) may pay travel, meal and other expenses for advisory representatives and others who visit the TPAM’s offices or other locations (including hotels and conference centers) to learn about its products and services.

EFA receives payments from firms or persons that offer asset management or separate account products or services to be included in a preferred list of advisers (referred to as “Strategic Partners”). These payments may take the form of conference, program or event attendance, participation or exhibition fees, educational and training fees, or fees linked to program participation or specific marketing initiatives within an existing program. None of these additional payments, however, is paid or directed to any advisory representative who sells these products. Nonetheless, the marketing payments and educational opportunities could lead our advisory representatives to focus more on those Strategic Partners that make payments to EFA – as opposed to other advisers that do not make such payments – when recommending an asset management program to their clients. With respect to the ESI Directions program, Envestnet Portfolio Solutions and Sentinel Funds are Strategic Partners.

For additional discussion of how the Firm identifies and addresses potential conflicts of interest, please refer to Item 11 (Code of Ethics).

## **Item 11 – Code of Ethics**

EFA has adopted a Code of Ethics (“the Code”) that mandates high standards of business conduct and professionalism. EFA, through its advisers, will provide a copy of its Code of Ethics to any client or prospective client upon request.

In general, the Code addresses certain groups of persons: Supervised Persons and Access Persons. The term “Supervised Persons” refers to any partner, officer, director, employee, or IAR of the Firm. “Access Persons” represent a subset of this population, and refers specifically to those individuals who have access to (1) nonpublic information regarding any clients’ trading activity, (2) nonpublic information regarding the portfolio holdings of any reportable fund, or (3) those who are involved in making securities recommendations to clients or who have access to such recommendations that are nonpublic.

The Code prohibits EFA's Supervised Persons from trading on material non-public information. Additionally, the Firm's Access Persons are required to report their securities holdings upon initial hire, and again annually. Quarterly reporting of personal securities transactions is also required for Access Persons. EFA's Supervised Persons must acknowledge the terms of the Code annually.

The Code requires that advisory representatives render disinterested and impartial advice and make appropriate recommendations to clients based on an analysis of their needs. Potential conflicts of interest may arise when a recommendation could result in additional compensation to the Firm and/or the advisory representative through the Firm's business relationships or through the execution of commissionable transactions. Such potential conflicts are a consideration for the Firm's Senior Business Risk Analysts in their review of new accounts and transactions. The Firm addresses conflicts of interest and potential conflicts of interest by periodically reviewing them during EFA's senior management meetings, and through disclosure to its clients, such as that contained in this Form ADV Part 2A-Appendix 1 brochure.

Advisory representatives of EFA may occasionally buy, hold, or sell securities for their own accounts that are also recommended to, or bought or sold for, their clients at the same time or at different times as clients are trading in these securities. However, neither EFA nor any employee may receive preferential treatment over clients.

It is EFA's policy that the Firm will not effect any principal or agency cross transactions for client accounts. EFA will also not cross trades between client accounts. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client. An agency cross transaction is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the advisory client and for another person on the other side of the transaction. Agency cross transactions may arise when an adviser is dually registered as a broker-dealer or has an affiliated broker-dealer. Cross trades occur where an adviser causes a client account to sell a security to another client account, whether or not a commission is charged in the transaction.

ESI in its capacity as a broker-dealer may execute securities transactions for its advisory clients, including, but not limited to, transactions in securities distributed or underwritten by an affiliate. ESI has a fully disclosed clearing relationship with NFS for the purpose of offering stock, bond and option trading. ESI is not affiliated with NFS, but receives revenue sharing payments from NFS when no-transaction fee mutual funds are used in its proprietary advisory programs (i.e. ESI Illuminations and ESI Directions). EFA and its advisory representatives generally receive compensation, including commissions on transactions for which ESI acts as broker-dealer, in addition to that which is received for the performance of advisory-related services.

EFA and its affiliates may also contribute amounts to various non-cash and cash incentives paid to EFA's advisory representatives based on the achievement of specified sales goals for certain securities, as described in Item 14 (Client Referrals and other Compensation). Incentive programs are reviewed by the Compliance Department. The review of such programs seeks to ensure that all such incentives adhere to applicable

rules. Potential conflicts of interest are managed through public disclosure to clients and prospective clients, and on the Firm's public website.

Additionally, unaffiliated TPAMs may pay travel, meal and other expenses for advisory representatives and others who visit the TPAM's offices or other locations (including hotels and conference centers) to learn about its products and services.

Certain funds available in the ESI Illuminations program pay additional compensation to ESI, such as 12b-1 (trail) fees or shared revenue based on assets under management. This additional compensation is retained by the Firm and is not paid to the advisory representative managing the account. Such compensation presents a potential conflict of interest because EFA has a greater incentive to recommend investments that provide additional compensation to the Firm. Many mutual funds offer a variety of share classes, including certain classes that do not pay 12b-1 fees and which may be less expensive for eligible investors. EFA may recommend an ESI Illuminations account may purchase or hold a share class that bears 12b-1 fees when a less costly share class of the same fund is available.

NFS shares revenue associated with the use of no-transaction fee funds with EFA in the ESI Illuminations program. As such, EFA has additional incentive to recommend programs that utilize such funds over others which do not.

EFA's advisory representatives have an incentive to choose certain programs based on the maximum fee that can be charged given the asset value of the account, as well as whether the advisory representative may bear additional program charges.

The Firm also reviews potential conflicts of interest as part of its due diligence review of new and existing programs. Additionally, the Firm provides disclosure of its fee structure and revenue agreements to clients and potential clients by way of this disclosure document, as well as through the revenue sharing disclosure documents posted on its public website ([www.equity-services.com](http://www.equity-services.com)).

All Supervised Persons whose activities could encompass the solicitation of government clients are required to pre-clear all political contributions to local, state, or federal candidates, state and local political parties, or political action committees.

### **Item 13 – Review of Accounts**

Each advisory representative and his/her client will individually determine the frequency of reviews for the account(s) governed by an investment advisory agreement between the client and EFA. However, advisory representatives will offer their clients a review on at least an annual basis. Factors triggering such a review will include, but are not limited to: changing circumstances in the client's financial and personal life; the performance of the portfolio in both absolute terms, and relative to the client's goals, objectives and risk tolerance; and at the request of the client. In most cases, the review will be conducted by the advisory representative who performed the initial investment advisory services.

EFA will utilize software tools and/or review either exception reports or account statements for accounts on which EFA is advisor, to detect and make recommendations to correct variations from client mandates that are beyond variance tolerances established by the Firm. For discretionary accounts, the Firm and/or its Representative

may rebalance the account to address variances that are beyond the Firm's tolerance. In addition to review by advisory representatives, EFA's reviewers will include Senior Business Risk Analysts and/or other home office staff members.

Clients of the ESI Directions program will receive written quarterly performance statements from Envestnet Portfolio Solutions showing positions, activities and contributions made during the quarter. Also, at least quarterly, NFS provides brokerage statements for ESI Directions program accounts.

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

EFA pays individuals or entities, acting as bona fide solicitors, a portion of the advisory fee charged to a client who is referred to EFA by the solicitor. All such solicitor arrangements will conform to the requirements set forth in Investment Advisers Act Rule 206(4)-3.

In addition to the revenue sharing payments discussed in Items 10 and 11, ESI also receives additional compensation for the sales of securities issued and or distributed by members of its Strategic Partners program. Envestnet Portfolio Solutions and Sentinel Funds are the only Strategic Partner product distributors in the ESI Directions program. As such, the Firm has an incentive to promote these funds over other available funds.

EFA and its affiliates also contribute amounts to various non-cash and cash incentives paid to EFA's advisory representatives based on the achievement of specified sales goals for certain securities, including (1) sponsoring sales contests and/or promotions in which participants receive awards or incentives such as travel, merchandise, computer hardware and/or software; (2) paying for occasional meals, lodging and/or entertainment; (3) making cash payments in lieu of business expense reimbursements; (4) making and forgiving business-related loans; (5) cash bonuses and/or; (6) employee benefits, such as health insurance, Social Security contributions, etc.

Current information regarding ESI's Strategic Partners program may be found at [www.Equity-Services.com](http://www.Equity-Services.com) or by calling (800) 344-7437.

For a discussion of how the firm identifies and addresses potential conflicts of interest which arise from its various business relationships, please refer to Item 11 (Code of Ethics).

#### **Item 18 – Financial Information**

EFA is not aware of any financial condition that is reasonably likely to impair its ability meet its contractual commitments to clients, nor has EFA been the subject of a bankruptcy petition at any time during the past ten years.