

# Disclosure Brochure

March 16, 2018

## Flagship Harbor Advisors, LLC

*a Registered Investment Adviser*

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This brochure provides information about the qualifications and business practices of Flagship Harbor Advisors, LLC. If you have any questions about the contents of this brochure, please contact David J. Kaufman at (857) 350-4229. 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. Additional information about Flagship Harbor Advisors, LLC is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Flagship Harbor Advisors, LLC (hereinafter the "Registrant") is an SEC registered investment adviser. Registration does not imply any level of skill or training.

## Item 2. Material Changes

This Item discusses only the material changes that have occurred since the Registrant's last annual update filed March 30, 2017. The Registrant has updated Item 9 to describe a settlement with the Massachusetts Securities Division of the Office of the Secretary of the Commonwealth. The Registrant has updated Item 12 to provide information related its receipt of certain economic benefits from LPL Financial, including (but not limited to) LPL Financial's payment of transition assistance benefits to the Registrant's *Advisory Affiliates*. Finally, the Registrant has also updated Item 17 to provide information related to its acceptance of proxy voting authority. The Registrant has no other changes to disclose in relation to this Item.

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## Item 4. Advisory Business

The Registrant has been in business since December 2010. David Kaufman is the principal owner of the Registrant.

The Registrant is an investment adviser providing financial planning, consulting, and investment management services. Prior to engaging the Registrant to provide any of the foregoing investment advisory services, the client will be required to enter into one or more written agreements with the Registrant setting forth the terms and conditions under which the Registrant shall render its services (collectively the “*Agreement*”). Neither the Registrant nor the client may assign the *Agreement* without the consent of the other party. Transactions that do not result in a change of actual control or management of the Registrant shall not be considered an assignment.

As of March 7, 2018, the Registrant had \$1,316,875,079 in assets under management, all of which were managed on a discretionary basis.

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

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The Registrant may provide its clients with a broad range of comprehensive financial planning and consulting services (which may include non-investment related matters). These services include business planning, investments, insurance, retirement, education, estate planning, and tax and cash flow needs of the client.

In performing its services, the Registrant shall not be required to verify any information received from the client or from the client’s other professionals (e.g., attorney, accountant, etc.) and is expressly authorized to rely on such information. The Registrant may recommend the services of itself, its *Advisory Affiliates* in their individual capacities as registered representatives of a broker-dealer, and/or other professionals to implement its recommendations. Clients are advised that a conflict of interest exists if the Registrant recommends its own services. The client is under no obligation to act upon any of the recommendations made by the Registrant under a financial planning / consulting engagement and/or engage the services of any such recommended professional, including the Registrant itself. The client retains absolute discretion over all such implementation decisions and is free to accept or reject any of the Registrant’s recommendations. Moreover, each client is advised that it remains his/her/its responsibility to promptly notify the Registrant if there is ever any change in his/her/its financial situation or investment objectives for the purpose of reviewing, evaluating, or revising the Registrant’s previous recommendations and/or services.

### **Investment Management and Wealth Management Services**

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The Registrant can be engaged to manage all or a portion of a client’s assets on a discretionary and/or non-discretionary basis.

The Registrant intends to primarily allocate its client's investment management assets, on a discretionary and/or a non-discretionary basis among *Independent Managers* (as defined below), mutual funds, exchange traded funds, individual debt and equity securities, real estate investment trusts (REITs) in accordance with the investment objectives of the client. The Registrant may also provide advice about any type of investment held in a client's portfolio.

It is the Registrant's practice to tailor its advisory services to the individual needs of clients. The Registrant will ensure that each client's investments are suitable for that client and consistent with their investment needs, goals, objectives and risk tolerance as well as any restrictions requested by the client.

Clients shall have the ability to impose reasonable restrictions on the management of their account, including the ability to instruct the Registrant not to purchase certain securities or types of securities.

The Registrant's clients are advised to promptly notify the Registrant if there are ever any changes in their financial situation or investment objectives or if they wish to impose any reasonable restrictions upon the Registrant's management services.

### Retirement Plan Consulting Services

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Registrant provides various consulting services to qualified employee benefit plans and their fiduciaries. This suite of institutional services is designed to assist plan sponsors in structuring, managing and optimizing their corporate retirement plans. Each engagement is individually negotiated and customized, and may include any or all of the following services:

- Plan Design and Strategy
- Plan Review and Evaluation
- Executive Planning & Benefits
- Investment Selection
- Plan Fee and Cost Analysis
- Plan Committee Consultation
- Fiduciary and Compliance
- Participant Education

As disclosed in the Advisory Agreement, certain of the foregoing services are provided by Registrant as a fiduciary under the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). In accordance with ERISA Section 408(b)(2), each plan sponsor is provided with a written description of Registrant's fiduciary status, the specific services to be rendered and all direct and indirect compensation the Registrant reasonably expects under the engagement.

### Use of Independent Managers

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As mentioned above, the Registrant recommends that certain clients authorize the active discretionary management of a portion of their assets by and/or among certain independent investment manager(s) ("*Independent Manager(s)*"), based upon the stated investment objectives of the client. The terms and conditions under which the client shall engage the *Independent Manager(s)* shall be set forth in separate written agreements between (1) the client and the Registrant and (2) the Registrant or client and the designated *Independent Manager(s)*. The Registrant shall continue to render services to the client

relative to the discretionary selection of *Independent Manager(s)* as well as the monitoring and review of account performance and client investment objectives, for which the Registrant shall receive an annual advisory fee which is based upon a percentage of the market value of the assets being managed by the designated *Independent Manager(s)*.

When selecting an *Independent Manager* for a client, the Registrant shall review information about the *Independent Manager(s)* such as its disclosure statement and/or material supplied by the *Independent Manager(s)* or independent third parties for a description of the *Independent Manager's* investment strategies, past performance and risk results to the extent available. Factors that the Registrant shall consider in selecting *Independent Manager(s)* include the client's stated investment objective(s), management style, performance, reputation, financial strength, reporting, pricing, and research. The investment management fees charged by the designated *Independent Manager(s)*, together with the fees charged by the wrap fee program sponsor and corresponding designated broker-dealer/custodian of the client's assets, may be exclusive of, and in addition to, the Registrant's investment advisory fee set forth above. As discussed above, the client may incur additional fees than those charged by the Registrant, the designated *Independent Manager(s)*, wrap fee program sponsor (if applicable), and corresponding broker-dealer and custodian.

In addition to the Registrant's written disclosure statement, the client shall also receive the written disclosure statement of the designated *Independent Manager(s)* and wrap fee program sponsor (if applicable). Certain *Independent Manager(s)* impose more restrictive account requirements and varying billing practices than the Registrant. In such instances, the Registrant may alter its corresponding account requirements and/or billing practices to accommodate those of the *Independent Manager(s)* or wrap fee program sponsor.

If the Registrant refers a client to certain *Independent Manager(s)* where the Registrant's compensation is included in the advisory fee charged by such *Independent Manager(s)* and the client engages those *Independent Manager(s)*, the Registrant shall be compensated for its services by receipt of a fee to be paid directly by the *Independent Manager(s)* to the Registrant in accordance with the requirements of Rule 206(4)-3 of the Investment Advisers Act of 1940, as amended, and any corresponding state securities laws, rules, regulations, or requirements. Any such fee shall be paid solely from the *Independent Manager(s)* investment management fee or the program fee of the wrap fee program (as appropriate), and shall not result in any additional charge to the client.

### **Management Through Similarly Managed Accounts**

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For certain clients, the Registrant manages client portfolios by allocating portfolio assets among various mutual funds and other securities on a discretionary basis using one or more of its proprietary investment strategies (collectively referred to as "*investment strategy*"). In so doing, the Registrant shall buy, sell, exchange and/or transfer shares of mutual funds and other securities based upon the *investment strategy*.

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The Registrant's management using the *investment strategy* has been designed to comply with the requirements of Rule 3a-4 of the Investment Company Act of 1940, as amended. Rule 3a-4 provides similarly managed accounts, such as the *investment strategy*, with a safe harbor from the definition of an investment company. In accordance with Rule 3a-4, the following features have been specifically included in the Registrant's management using the *investment strategy*:

1. **Initial Interview** – an initial interview is conducted with each client to determine the client's financial circumstances, goals, acceptable levels of risk, any reasonable restrictions on the management of their account, and other relevant circumstances;
2. **Individual Treatment** – the client's account is managed on the basis of the client's financial circumstances and investment objectives;
3. **Consultation** – an *Advisory Affiliate* of the Registrant knowledgeable about the client's account shall be reasonably available to consult with the client relative to the status and management of their account;
4. **Notice of Transactions** – the client shall receive notice of all transactions in their account as if they had maintained a similar account outside of the investment strategy;
5. **Quarterly Statement** – the client shall be provided with a quarterly statement containing a description of all activity in the their account;
6. **Ability to Impose Restrictions** – the client shall have the ability to impose reasonable restrictions on the management of their account, including the ability to instruct the Registrant not to purchase certain securities or types of securities;
7. **No Pooling** – the client's beneficial interest in a security does not represent an undivided interest in all the securities held by the custodian, but rather represents a direct and beneficial interest in the securities which comprise the client's account;
8. **Separate Account** – a separate account is maintained for the client with the custodian; and
9. **Ownership** - each client retains indicia of ownership of the account (e.g. right to withdraw securities or cash, exercise or delegate proxy voting, and receive transaction confirmations).

In addition to the foregoing, clients may, in writing, place reasonable limitations upon the Registrant's discretionary authority. The *investment strategy* may involve an above-average portfolio turnover that could negatively impact upon the net after-tax gain experienced by an individual client. Securities in the *investment strategy* are usually exchanged and/or transferred without regard to a client's individual tax ramifications. Certain investment opportunities that become available to the Registrant's clients may be limited. For example, various mutual funds may limit the ability of the Registrant to buy, sell, exchange or transfer securities consistent with its *investment strategy*. As further discussed in response to Item 12B (below), in order to meet its fiduciary duties to all of its clients, the Registrant will endeavor to allocate investment opportunities among its clients on a fair and equitable basis. Participation in the Registrant's *investment strategy* carries additional risk to clients in that a mutual fund may unilaterally restrict and/or

prohibit the Registrant's trading activities thus prohibiting it from managing the assets consistent with the *investment strategy*.

### **Sponsor and Manager of Wrap Program**

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The Registrant is the sponsor and manager of the Flagship Harbor Advisors Wrap Program (the "*Program*"), a wrap fee program. In the event the client participates in the *Program*, the Registrant shall provide its investment management services and arrange for brokerage transactions under a single annualized fee. For participants in the *Program*, the Registrant shall charge an annual fee based upon a percentage of the market value of the assets being managed by the Registrant that includes all commissions or transaction fees which otherwise would be incurred by the client. Participants in the *Program* may pay a higher aggregate fee than if investment management and brokerage services are purchased separately. A complete description of the *Program's* terms and conditions (including fees) are contained in the *Program's* wrap fee brochure. There are no material differences between the Registrant managed wrap accounts and other accounts. The wrap relationship exists primarily because of the preference of some clients to not be subject to separate transaction charges.

### **Additions from and Withdrawals to Accounts**

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Clients may make additions to and withdrawals from their account at any time, subject to the Registrant's right to terminate an account. Clients may withdraw account assets on notice to the Registrant, subject to the usual and customary securities settlement procedures. However, the Registrant designs its portfolios as long-term investments and the withdrawal of assets may impair the achievement of a client's investment objectives.



## Item 5. Fees and Compensation

The Registrant, depending upon the engagement, offers its services on a fee basis which may include hourly and/or fixed fees as well as fees based upon assets under management. Alternatively, certain of the Registrant's *Advisory Affiliates* offer securities brokerage services under a commission arrangement, which may be used to offset the Registrant's fees (as discussed below).

### **Financial Planning and Consulting Fees**

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The Registrant will charge a fixed fee and/or hourly fee for financial planning and consulting services. These fees are negotiable, but generally range from \$300 to \$15,000 on a fixed fee basis and/or from \$100 to \$500 on an hourly rate basis, depending upon the level and scope of the services and the professional rendering the financial planning and/or the consulting services. If the client engages the Registrant for additional investment advisory services, the Registrant may offset all or a portion of its fees for those services based upon the amount paid for the financial planning and/or consulting services.

Prior to engaging the Registrant to provide financial planning and/or consulting services, the client will generally be required to enter into a written agreement with the Registrant setting forth the terms and conditions of the engagement and describing the scope of the services to be provided and the portion of the fee that is due from the client prior to the Registrant commencing services. Generally, the Registrant requires one-half of the financial planning / consulting fee (estimated hourly or fixed) payable upon entering the written agreement. The balance is generally due upon delivery of the financial plan or completion of the agreed upon services. For clients who engage the Registrant for ongoing financial planning services, the Registrant shall prorate the fee and charge it quarterly in advance.

Either party may terminate the agreement by written notice to the other. In the event the client terminates the Registrant's financial planning and/or consulting services, the balance of the Registrant's unearned fees (if any) shall be refunded to the client. If termination occurs within five business days of entering into an agreement for such services the client shall be entitled to a full refund.

### **Investment Management Fee**

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In the event the client determines to engage the Registrant to provide investment management services, the Registrant shall do so on a fee basis. If engaged, the Registrant shall charge an annual fee based upon a percentage of the market value of the assets being managed by the Registrant. The Registrant's annual fee is exclusive of, and in addition to brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the client. However, the Registrant shall not receive any portion of these commissions, fees, and costs. The Registrant's annual fee shall be prorated and charged quarterly, in advance, based upon the market value of the assets being managed by the Registrant on the last day of the previous quarter. The annual fee shall vary (between 0.25% and 2.00%)

depending upon the market value of the assets under management and the type of investment management services to be rendered.

The Registrant, in its sole discretion, may negotiate to charge a lesser management fee based upon certain criteria (i.e., anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client, account retention, *pro bono* activities, etc.).

### **Retirement Plan Consulting Fees**

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Registrant charges a fixed project-based fee to provide clients with retirement plan consulting services. Each engagement is individually negotiated and tailored to accommodate the needs of the individual plan sponsor, as memorialized in the Agreement. These fees vary, based on the scope of the services to be rendered, and may range up to \$75,000 per annum for highly complex and involved engagements. In those situations where Registrant has agreed to manage a plan's assets, the Registrant may also charge an annual asset-based fee between 15 and 100 basis points (0.15% – 1.00%), depending upon the amount of assets to be managed.

### **Fees Charged by Financial Institution**

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As further discussed in response to Item 12 (below), the Registrant shall recommend that clients utilize the brokerage and clearing services of LPL Financial ("*LPL*") for investment management accounts.

The Registrant may only implement its investment management recommendations after the client has arranged for and furnished the Registrant with all information and authorization regarding accounts with appropriate financial institutions. Financial institutions shall include, but are not limited to, *LPL*, any other broker-dealer recommended by the Registrant, broker-dealer directed by the client, trust companies, banks etc. (collectively referred to herein as the "*Financial Institution(s)*").

Clients may incur certain charges imposed by the *Financial Institution(s)* and other third parties such as fees charged by *Independent Managers* (as defined below), custodial fees, charges imposed directly by a mutual fund or exchange traded fund in the account, which shall be disclosed in the fund's prospectus (e.g., fund management fees and other fund expenses), deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Additionally, for assets outside of any wrap fee programs, clients may incur brokerage commissions and transaction fees. Such charges, fees and commissions are exclusive of and in addition to the Registrant's fee.

### **Fee Debit**

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The Registrant's *Agreement* and/or the separate agreement with the *Financial Institution(s)* may authorize the Registrant through the *Financial Institution(s)* to debit the client's account for the amount of the

Registrant's fee and to directly remit that management fee to the Registrant in accordance with applicable custody rules. The *Financial Institution(s)* recommended by the Registrant have agreed to send a statement to the client, at least quarterly, indicating all amounts disbursed from the account including the amount of management fees paid directly to the Registrant.

### **Fees for Management During Partial Quarters of Service**

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For the initial period of investment management services, the first period's fees shall be calculated on a *pro rata* basis. The *Agreement* between the Registrant and the client will continue in effect until terminated by either party pursuant to the terms of the *Agreement*. The Registrant's annual fee shall be prorated through the date of termination and any remaining balance shall be charged or refunded to the client, as appropriate, in a timely manner.

Additions may be in cash or securities provided that the Registrant reserves the right to liquidate any transferred securities, or decline to accept particular securities into a client's account. The Registrant may consult with its clients about the options and ramifications of transferring securities. However, clients are advised that when transferred securities are liquidated, they are subject to transaction fees, fees assessed at the mutual fund level (i.e. contingent deferred sales charge) and/or tax ramifications.

If assets are deposited into or withdrawn from an account after the inception of a quarter, the fee payable with respect to such assets will be prorated based on the number of days remaining in the quarter.

### **Commissions or Sales Charges for Recommendations of Securities**

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In the event the client desires, the client can engage certain persons associated with the Registrant (but not the Registrant) to render securities brokerage services under a commission arrangement. Clients are under no obligation to engage such persons and may choose brokers or agents not affiliated with the Registrant.

Under this arrangement, the client may implement securities transactions through certain of the Registrant's *Advisory Affiliates*, in their respective individual capacities as registered representatives of *LPL*, an SEC registered broker-dealer and member of the FINRA. Brokerage commissions may be charged by *LPL* to effect these securities transactions and thereafter, a portion of these commissions may be paid by *LPL* to such *Advisory Affiliates*. Prior to effecting any transactions, the client will be required to enter into a new account agreement with *LPL*. The brokerage commissions charged by *LPL* may be higher or lower than those charged by other broker-dealers. In addition, certain of the Registrant's *Advisory Affiliates* (as applicable), may also receive additional ongoing 12b-1 fees for mutual fund purchases from the mutual fund company during the period that the client maintains the mutual fund investment.

While the Registrant does not sell such securities products to its investment advisory clients, the Registrant does permit its *Advisory Affiliates*, in their individual capacities as registered representatives of

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*LPL*, to sell securities products to its investment advisory clients. A conflict of interest exists to the extent that the Registrant recommends the purchase of securities where the Registrant's *Advisory Affiliates* receive commissions or other additional compensation as a result of the Registrant's recommendations. The Registrant has procedures in place to ensure that any recommendations made by such *Advisory Affiliates* are in the best interest of clients regardless of any additional compensation earned.

For accounts covered by ERISA (and such others that the Registrant, in its sole discretion deems appropriate), the Registrant shall provide its investment advisory services on a fee-offset basis. In this scenario, the Registrant may offset its fees by an amount equal to the aggregate commissions and 12b-1 fees earned by the Registrant's *Advisory Affiliates* in their individual capacities as registered representatives of *LPL*.

## **Item 6. Performance-Based Fees and Side-by-Side Management**

The Registrant does not provide any services for performance based fees. Performance based fees are those based on a share of capital gains on or capital appreciation of the assets of a client.

## Item 7. Types of Clients

The Registrant provides its services to individuals, pension and profit sharing plans, trusts, estates, charitable organizations, corporations and business entities.

### **Minimums Imposed By Independent Managers**

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The Registrant does not impose a minimum portfolio size or minimum annual fee. Certain *Independent Manager(s)* may, however, impose more restrictive account requirements and varying billing practices than the Registrant. In such instances, the Registrant may alter its corresponding account requirements and/or billing practices to accommodate those of the *Independent Manager(s)* or wrap fee program sponsor.

## Item 8. Methods of Analysis, Investment Strategies and Risk of Loss

The Registrant's primary methods of analysis are fundamental and technical. Each of the Registrant's investment adviser representatives may deviate in their investment strategy. In developing its analysis, the Registrant also relies on software-driven analysis that may incorporate the philosophies discussed below.

*Fundamental analysis* involves the fundamental financial condition and competitive position of a company. The Registrant will analyze the financial condition, capabilities of management, earnings, new products and services, as well as the company's markets and position amongst its competitors in order to determine the recommendations made to clients. The primary risk in using fundamental analysis is that while the overall health and position of a company may be good, market conditions may negatively impact the security.

*Technical analysis* involves the analysis of past market data rather than specific company data in determining the recommendations made to clients. Technical analysis may involve the use of charts to identify market patterns and trends which may be based on investor sentiment rather than the fundamentals of the company. The primary risk in using technical analysis is that spotting historical trends may not help to predict such trends in the future. Even if the trend will eventually reoccur, there is no guarantee that the Registrant will be able to accurately predict such a reoccurrence.

### Use of Margin

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To the extent that a client authorizes the use of margin, and margin is thereafter employed by the Registrant in the management of the client's investment portfolio, the market value of the client's account and corresponding fee payable by the client to the Registrant will not be increased.

While the use of margin borrowing can substantially improve returns, such use may also increase the adverse impact to which a client's portfolio may be subject. Borrowings will usually be from securities brokers and dealers and will typically be secured by the client's securities and/or other assets. Under certain circumstances, such a broker-dealer may demand an increase in the collateral that secures the client's obligations and if the client were unable to provide additional collateral, the broker-dealer could liquidate assets held in the account to satisfy the client's obligations to the broker-dealer. Liquidation in that manner could have extremely adverse consequences. In addition, the amount of the client's borrowings and the interest rates on those borrowings, which will fluctuate, will have a significant effect on the client's profitability.

### Market Risks

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The profitability of a significant portion of the Registrant's recommendations may depend to a great extent upon correctly assessing the future course of price movements of stocks and bonds. There can be no assurance that the Registrant will be able to predict those price movements accurately.

## **Mutual Funds and Exchange Traded Funds (ETFs)**

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An investment in a mutual fund or ETF (collectively, “Funds”) involves risk, including the loss of principal. Funds are subject to secondary market trading risks. Shares of Funds will be listed for trading on an exchange, however, there can be no guarantee that an active trading market for such shares will develop or continue. There can be no guarantee that a Fund’s exchange listing or ability to trade its shares will continue or remain unchanged. Shares of the Fund may trade on an exchange at prices at, above or below their most recent net asset valuation (NAV), which is the price that an investor would buy or sell the Fund at. The per share NAV of a Fund is calculated at the end of each business day, and fluctuates with changes in the market value of the Fund’s holdings. The trading prices of a Fund’s shares may differ significantly from NAV during periods of market volatility, which may, among other factors, lead to the ETF’s shares trading at a premium or discount to NAV.

## **Use of Independent Manager(s)**

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The Registrant may recommend the use of *Independent Manager(s)* for certain clients. The Registrant will continue to do ongoing due diligence of such managers, but the such recommendations relies, to a great extent, on the *Independent Manager(s)* ability to successfully implement their investment strategy. In addition, the Registrant does not have the ability to supervise the *Independent Manager(s)* on a day-to-day basis, if at all.

## **Options**

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The Registrant may recommend the use of options for certain clients. Options allow the Registrant to hedge (limit) certain losses on positions clients hold. The option allows the Registrant to buy or sell a security at a certain price (not the current market price). Clients pay a fee for the option. If the option falls outside the money (i.e., the market price of the security does not justify purchasing/selling the security at the option price), the client will lose the fee for that option.

Investing in securities involves the risk of loss. Clients should be prepared to bear such loss.



### **Item 9. Disciplinary Information**

In a Consent Order dated October 2, 2017 (“the Order”), the Registrant entered into a settlement with the Massachusetts Securities Division of the Office of the Secretary of the Commonwealth (“the Securities Division”), related to allegations that the Registrant failed to register one of its Supervised Persons as an investment adviser representative of the Registrant with the Securities Division. Pursuant to the Order, the Registrant paid restitution in the amount of \$294,131.08 and an administrative fine in the amount of \$93,900.

## Item 10. Other Financial Industry Activities and Affiliations

The Registrant is required to disclose any relationship or arrangement that is material to its advisory business or to its clients with certain related persons. The Registrant has described such relationships and arrangements, below.

### **Receipt of Securities Commission**

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As described above in response to Item 5, certain *Advisory Affiliates* of the Registrant are registered representatives of LPL Financial. As a result of this relationship, LPL Financial may have access to certain confidential information (e.g., financial information, investment objectives, transactions and holdings) about the Registrant's clients, even if client does not establish any account through LPL. Any client that would like a copy of the LPL Financial privacy policy can contact the Registrant at the contact information on the cover page of this brochure.

### **Fees from Independent Managers**

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As discussed above, the Registrant recommends that certain clients authorize the active discretionary management of a portion of their assets by and/or among certain *Independent Manager(s)*. In certain circumstances the Registrant's compensation is included in the advisory fee charged by such *Independent Manager(s)*. There may be a conflict of interest to choose such *Independent Manager(s)*.

## Item 11. Code of Ethics

The Registrant and persons associated with Registrant (“Associated Persons”) are permitted to buy or sell securities that it also recommends to clients consistent with the Registrant’s policies and procedures.

Registrant has adopted a code of ethics that sets forth the standards of conduct expected of its associated persons and requires compliance with applicable securities laws (“*Code of Ethics*”). Registrant’s *Code of Ethics* contains written policies reasonably designed to prevent the unlawful use of material non-public information by the Registrant or any of its associated persons. The *Code of Ethics* also requires that certain of the Registrant’s personnel (called “*Access Persons*”) report their personal securities holdings and transactions and obtain pre-approval of certain investments such as initial public offerings and limited offerings.

When the Registrant is engaging in or considering a transaction in any security on behalf of a client, no *Access Person* may effect for themselves or for their immediate family (i.e., spouse, minor children, and adults living in the same household as the *Access Person*) a transaction in that security unless:

- the transaction has been completed;
- the transaction for the *Access Person* is completed as part of a batch trade (as defined below in Item 12) with clients; or
- a decision has been made not to engage in the transaction for the client.

These requirements are not applicable to: (i) direct obligations of the Government of the United States; (ii) money market instruments, bankers’ acceptances, bank certificates of deposit, commercial paper, repurchase agreements and other high quality short-term debt instruments, including repurchase agreements; (iii) shares issued by mutual funds or money market funds; and (iv) shares issued by unit investment trusts that are invested exclusively in one or more mutual funds.

This *Code of Ethics* has been established recognizing that some securities trade in sufficiently broad markets to permit transactions by *Access Persons* to be completed without any appreciable impact on the markets of such securities. Therefore, under certain limited circumstances, exceptions may be made to the policies stated above.

Clients and prospective clients may contact the Registrant to request a copy of its *Code of Ethics*.

## Item 12. Brokerage Practices

As discussed above, in Item 5, the Registrant shall recommend that clients utilize the brokerage and clearing services of *LPL* for investment management accounts. The final decision to custody assets with *LPL* is at the discretion of the client, including those accounts under ERISA or IRA rules and regulations, in which case the client is acting as either the plan sponsor or IRA accountholder. The Registrant is independently owned and operated and not affiliated with *LPL*. *LPL* provides the Registrant with access to its institutional trading and custody services, which are typically not available to retail investors.

Factors which the Registrant considers in recommending *LPL* or any other broker-dealer, to clients include their respective financial strength, reputation, execution, pricing, research, and service. *LPL* enables the Registrant to obtain many mutual funds without transaction charges and other securities at nominal transaction charges. The commissions and/or transaction fees charged by *LPL* may be higher or lower than those charged by other broker-dealers.

The commissions paid by the Registrant's clients shall comply with the Registrant's duty to obtain "best execution." However, a client may pay a commission that is higher than another qualified broker-dealer might charge to effect the same transaction where the Registrant determines, in good faith, that the commission is reasonable in relation to the value of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealer's services, including among others, the value of research provided, execution capability, commission rates, and responsiveness. Consistent with the foregoing, while the Registrant will seek competitive rates, it may not necessarily obtain the lowest possible commission rates for client transactions.

If the client requests the Registrant to arrange for the execution of securities brokerage transactions for the client's account, the Registrant shall direct such transactions through broker-dealers that the Registrant reasonably believes will provide best execution. The Registrant shall periodically and systematically review its policies and procedures regarding recommending broker-dealers to its client in light of its duty to obtain best execution.

The client may direct the Registrant in writing to use a particular broker-dealer to execute some or all transactions for the client. In that case, the client will negotiate terms and arrangements for the account with that broker-dealer, and the Registrant will not seek better execution services or prices from other broker-dealers or be able to "batch" client transactions for execution through other broker-dealers with orders for other accounts managed by the Registrant (as described below). As a result, the client may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case. Subject to its duty of best execution, the Registrant may decline a client's request to direct brokerage if, in the Registrant's sole

discretion, such directed brokerage arrangements would result in additional operational difficulties or violate restrictions imposed by other broker-dealers (as further discussed below).

Consistent with obtaining best execution, brokerage transactions may be directed to certain broker-dealers in return for investment research products and/or services which assist the Registrant in its investment decision-making process. Such research generally will be used to service all of the Registrant's clients, but brokerage commissions paid by one client may be used to pay for research that is not used in managing that client's portfolio. The receipt of investment research products and/or services as well as the allocation of the benefit of such investment research products and/or services poses a conflict of interest because the Registrant does not have to produce or pay for the products or services.

The Registrant periodically and systematically reviews its policies and procedures regarding its recommendation of Financial Institutions in light of its duty to obtain best execution.

### **Trade Aggregation**

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Transactions for each client will be effected independently, unless the Registrant decides to purchase or sell the same securities for several clients at approximately the same time. The Registrant may (but is not obligated to) combine or "batch" such orders to obtain best execution, to negotiate more favorable commission rates, or to allocate equitably among the Registrant's clients differences in prices and commissions or other transaction costs that might have been obtained had such orders been placed independently. Under this procedure, transactions will be averaged as to price and allocated among the Registrant's clients pro rata to the purchase and sale orders placed for each client on any given day. To the extent that the Registrant determines to aggregate client orders for the purchase or sale of securities, including securities in which the Registrant's *Advisory Affiliate(s)* may invest, the Registrant shall do so in accordance with applicable rules promulgated under the Advisers Act and no-action guidance provided by the staff of the U.S. Securities and Exchange Commission. The Registrant shall not receive any additional compensation or remuneration as a result of the aggregation. In the event that the Registrant determines that a prorated allocation is not appropriate under the particular circumstances, the allocation will be made based upon other relevant factors, which may include: (i) when only a small percentage of the order is executed, shares may be allocated to the account with the smallest order or the smallest position or to an account that is out of line with respect to security or sector weightings relative to other portfolios, with similar mandates; (ii) allocations may be given to one account when one account has limitations in its investment guidelines which prohibit it from purchasing other securities which are expected to produce similar investment results and can be purchased by other accounts; (iii) if an account reaches an investment guideline limit and cannot participate in an allocation, shares may be reallocated to other accounts (this may be due to unforeseen changes in an account's assets after an order is placed); (iv) with respect to sale allocations, allocations may be given to accounts low in cash; (v) in cases when a pro rata allocation of a potential execution would result in a *de minimis* allocation in one or more accounts, the Registrant may exclude the account(s) from the allocation; the transactions may be

executed on a pro rata basis among the remaining accounts; or (vi) in cases where a small proportion of an order is executed in all accounts, shares may be allocated to one or more accounts on a random basis.

### **Software and Support Provided by Financial Institutions**

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The Registrant may receive from *LPL*, without cost to the Registrant, computer software and related systems support, which allow the Registrant to better monitor client accounts maintained at *LPL*. The Registrant may receive the software and related support without cost because the Registrant renders investment management services to clients that maintain assets at *LPL*. The software and support is not provided in connection with securities transactions of clients (i.e. not “soft dollars”). The software and related systems support may benefit the Registrant, but not its clients directly. In fulfilling its duties to its clients, the Registrant endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the Registrant’s receipt of economic benefits from a broker-dealer creates a conflict of interest since these benefits may influence the Registrant’s choice of broker-dealer over another broker-dealer that does not furnish similar software, systems support, or services.

Specifically, the Registrant receives the following benefits from *LPL*: receipt of duplicate client confirmations and bundled duplicate statements; access to a trading desk that exclusively services its registered investment advisor group participants; access to block trading which provides the ability to aggregate securities transactions and then allocate the appropriate shares to client accounts; and access to an electronic communication network for client order entry and account information.

In addition, the Registrant receives funds to be used toward qualifying third-party service providers for research, marketing, compliance, technology and software platforms and services. These services include: practice management-related publications; consulting services; attendance at conferences and seminars, meetings, and other educational and/or social events; marketing support; and other products and services used by the Registrant in furtherance of the operation and development of its investment advisory business.

### **Transition Assistance Benefits to Advisory Affiliates**

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*LPL* provides various benefits and payments to certain *Advisory Affiliates* of the Registrant that are registered representatives of *LPL* who are new to *LPL* platform to assist the *Advisory Affiliates* with the costs (including foregone revenues during account transition) associated with transitioning business from his or her prior firm to the *LPL* Financial platform (collectively referred to as “Transition Assistance”). The proceeds of such Transition Assistance payments are intended to be used for a variety of purposes, including but not necessarily limited to, providing working capital to assist in funding the *Advisory Affiliate’s* business, satisfying any outstanding debt owed to the *Advisory Affiliate’s* prior firm, offsetting account transfer fees payable to *LPL* as a result of the *Advisory Affiliate’s* clients transitioning to *LPL’s* custodial platform, technology set-up fees, marketing and mailing costs, stationary and licensure transfer

fees, moving expenses, office space expenses, staffing support and termination fees associated with moving accounts.

The amount of the Transition Assistance payments are often significant in relation to the overall revenue earned or compensation received by the *Advisory Affiliate* at his or her prior firm. Such payments are generally based on the size of the *Advisory Affiliate's* business established at his or her prior firm and/or assets under custody on the *LPL*.

Transition Assistance payments and other benefits are provided to associated persons of the Registrant in their capacity as registered representatives of *LPL*. However, the receipt of Transition Assistance by such *Advisory Affiliates* creates conflicts of interest relating to Registrant's advisory business because it creates a financial incentive for the Registrant's representatives to recommend that its clients maintain their accounts with *LPL*. In certain instances, the receipt of such benefits is dependent on the *Advisory Affiliate's* maintaining its clients' assets with *LPL* and therefore Registrant has an incentive to recommend that clients maintain their account with *LPL* in order to generate such benefits.

Registrant attempts to mitigate these conflicts of interest by evaluating and recommending that clients use *LPL's* services based on the benefits that such services provide to our clients, rather than the Transition Assistance earned by any particular *Advisory Affiliate*. The Registrant considers *LPL's* full range of a services, including among others, the value of research provided, execution capability, commission rates, and responsiveness. when recommending or requiring that clients maintain accounts with *LPL*. However, clients should be aware of this conflict and take it into consideration in making a decision whether to custody their assets in a brokerage account at *LPL*.

### **Commissions or Sales Charges for Recommendations of Securities**

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As discussed above, certain *Advisory Affiliates* in their respective individual capacities, are registered representatives of *LPL*. These *Advisory Affiliates* are subject to FINRA Rule 3040 which restricts registered representatives from conducting securities transactions away from their broker-dealer unless *LPL* provides written consent. Therefore, clients are advised that certain *Advisory Affiliates* may be restricted to conducting securities transactions through *LPL* unless they first secure written consent from *LPL* to execute securities transactions through a different broker-dealer. Absent such written consent or separation from *LPL*, these *Advisory Affiliates* are prohibited from executing securities transactions through any broker-dealer other than *LPL* under *LPL's* internal supervisory policies. Registrant is cognizant of its duty to obtain best execution and has implemented policies and procedures reasonably designed in such pursuit.

## Item 13. Review of Accounts

### **Account Reviews**

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For those clients to whom the Registrant provides investment management services, the Registrant monitors those portfolios as part of an ongoing process while regular account reviews are conducted on at least a quarterly basis. For those clients to whom the Registrant provides financial planning and/or consulting services, reviews are conducted on an “as needed” basis. Such reviews are conducted by one of the Registrant’s investment adviser representatives. All investment advisory clients are encouraged to discuss their needs, goals, and objectives with the Registrant and to keep the Registrant informed of any changes thereto. The Registrant shall contact ongoing investment advisory clients at least annually to review its previous services and/or recommendations and to discuss the impact resulting from any changes in the client’s financial situation and/or investment objectives.

### **Account Statements and Reports**

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Unless otherwise agreed upon, clients are provided with transaction confirmation notices and regular summary account statements directly from the broker-dealer or custodian for the client accounts. Those clients to whom the Registrant provides investment advisory services will also receive a report from the Registrant that may include such relevant account and/or market-related information such as an inventory of account holdings and account performance as clients may request from time to time. Clients should compare the account statements they receive from their custodian with those they receive from the Registrant.

Those clients to whom the Registrant provides financial planning and/or consulting services will receive reports from the Registrant summarizing its analysis and conclusions as requested by the client or otherwise agreed to in writing by the Registrant.



## Item 14. Client Referrals and Other Compensation

### **Client Referrals**

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The Registrant is required to disclose any direct or indirect compensation that it provides for client referrals. The Registrant does not have any required disclosures to this Item.

### **Other Economic Benefits**

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In addition, the Registrant is required to disclose any relationship or arrangement where it receives an economic benefit from a third party (non-client) for providing advisory services. This type of relationship poses a conflict of interest and any such relationship is disclosed in response to Item 12, above.

### Item 15. Custody

As discussed above, the Registrant's *Agreement* and/or the separate agreement with the *Financial Institution(s)* may authorize the Registrant through the *Financial Institution(s)* to debit the client's account for the amount of the Registrant's fee and to directly remit that management fee to the Registrant in accordance with applicable custody rules. The *Financial Institution(s)* recommended by the Registrant have agreed to send a statement to the client, at least quarterly, indicating all amounts disbursed from the account including the amount of management fees paid directly to the Registrant. In addition, as discussed in Item 13, the Registrant also sends periodic supplemental reports to clients. Clients should carefully review the statements sent directly by the *Financial Institution(s)* and compare them to those received from the Registrant.

## Item 16. Investment Discretion

The Registrant may be given the authority to exercise discretion on behalf of clients. The Registrant is considered to exercise investment discretion over a client's account if it can effect transactions for the client without first having to seek the client's consent. The Registrant is given this authority through a power-of-attorney included in the agreement between the Registrant and the client. Clients may request a limitation on this authority (such as certain securities not to be bought or sold). The Registrant takes discretion over the following activities:

- The securities to be purchased or sold;
- The amount of securities to be purchased or sold;
- When transactions are made;
- The *Independent Manager(s)* to be hired or fired.

## Item 17. Voting Client Securities

### Acceptance of Proxy Voting Authority

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The Registrant accepts the authority to vote a client's securities (i.e. proxies) on their behalf. When the Registrant accepts such responsibility, it will only cast proxy votes in a manner consistent with the best interest of its clients. Absent special considerations, which are fully described in the Registrant's Proxy Voting Policies and Procedures, all proxies will be voted consistent with guidelines established and described in the Registrant's Proxy Voting Policies and Procedures, as they may be amended from time to time. Clients may contact the Registrant to request information about how the Registrant voted proxies for that client's securities or to get a copy of the Registrant's Proxy Voting Policies and Procedures. A brief summary of the Registrant's Proxy Voting Policies and Procedures is as follows:

- The Registrant has formed a Proxy Voting Committee that will be responsible for monitoring corporate actions, making voting decisions in the best interest of clients (or delegating that responsibility), and ensuring that proxies are submitted in a timely manner.
- The Proxy Voting Committee, or person(s) affiliated with the Registrant to whom the responsibility was delegated, will vote proxies according to the Registrant's then current Proxy Voting Guidelines. The Proxy Voting Guidelines include many specific examples of voting decisions for the types of proposals that are most frequently presented, including: composition of the board of directors; approval of independent auditors; management and director compensation; anti-takeover mechanisms and related issues; changes to capital structure; corporate and social policy issues; and issues involving mutual funds.
- Although the Proxy Voting Guidelines are followed as a general policy, certain issues are considered on a case-by-case basis based on the relevant facts and circumstances. Since Corporate governance issues are diverse and continually evolving, the Registrant devotes an appropriate amount of time and resources to monitor these changes.
- Clients cannot direct the Registrant to vote on a particular solicitation but can revoke the Registrant's authority to vote proxies.

In situations where there is a conflict of interest in the voting of proxies due to business or personal relationships that the Registrant maintains with persons having an interest in the outcome of certain votes, the Registrant takes appropriate steps to ensure that its proxy voting decisions are made in the best interest of its clients and are not the product of such conflict.

## Item 18. Financial Information

The Registrant is not required to disclose any financial information pursuant to this Item due to the following:

- The Registrant does not require or solicit the prepayment of more than \$1,200 in fees six months or more in advance of services rendered;
- The Registrant does not have a financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients; and
- The Registrant has not been the subject of a bankruptcy petition at any time during the past ten years.

## **Flagship Harbor Advisors, LLC**

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