

**Item 1 – Cover Page**

**XML FINANCIAL, LLC**

One Preserve Parkway, Suite 120  
Rockville, MD 20852  
(301) 770-5234

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

This brochure provides information about the qualifications and business practices of XML Financial, LLC (hereinafter “XML”, “XML Financial Group” or the “Firm”). If you have any questions about the contents of this brochure, please contact the Firm at (301) 770-5234. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

XML 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 XML is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by a unique identifying number, known as a CRD number. The CRD number for XML is 284987.

## Item 2. Material Changes

This Item of the Brochure discusses only specific material changes that are made to the Brochure and provides clients with a summary of such changes. The material changes to this Disclosure Brochure since the last update of February 1, 2019 are:

- In July 2018, Focus Financial Partners Inc. conducted an initial public offering (“IPO”) of shares of its common stock. Focus Financial Partners Inc. is the sole managing member of Focus Financial Partners, LLC and as of the IPO owned approximately two-thirds of the economic interests in Focus Financial Partners, LLC. Because XML is an indirect, wholly-owned subsidiary of Focus Financial Partners, LLC, XML is an indirect, majority-owned subsidiary of Focus Financial Partners Inc., a public company. – see Item 4.
- As of 1/2/2019, Purshe Kaplan Sterling Investments, Inc. (“PKS”) was replaced by our affiliated broker dealer, Lara, May & Associates, LLC, Member FINRA/SIPC (“LMA”) – see Item 5.
- Effective 2/1/2019 through LMA, Lara May Advisors, a division of XML Financial, offers wrap fee advisory programs – see Item 4 and the XML Wrap Brochure.
- Effective 2/1/2019 we are able to offer the third party managed services of Morningstar Investment Services (“MIS”) - see Item 5.
- Descriptions were updated regarding wholesaler events, conferences and third party sponsorships and added Supervised Persons can receive nominal compensation for their time and expenses regarding speaking engagements – see Item 14.
- Description of Soft Dollar arrangement with Fidelity Brokerage Services, LLC (“Fidelity”) – see Item 12.

XML’s Brochure may be requested free of charge by contacting (301)770-5234 or [info@xmlfg.com](mailto:info@xmlfg.com). Additional information about XML is also 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 XML who are registered, or are required to be registered, as investment adviser representatives of XML.

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#### **Item 4. Advisory Business**

XML offers a variety of advisory services, which include financial planning, consulting and investment management services. Prior to XML rendering any of the foregoing advisory services, clients are required to enter into one or more written agreements with XML setting forth the relevant terms and conditions of the advisory relationship (the “Advisory Agreement”). XML primarily utilizes a discretionary investment management agreement.

XML Financial, LLC was formed in 2016. XML will also hold itself out by the doing-business-as (“DBA”) names, “XML Financial Group” or “Lara May Advisors”.

##### FOCUS FINANCIAL PARTNERS, LLC

XML is part of the Focus Financial Partners, LLC (“Focus LLC”) partnership. Specifically, XML is a wholly-owned subsidiary of Focus Operating, LLC (“Focus Operating”), which is a wholly-owned subsidiary of Focus LLC. Focus Financial Partners Inc. (“Focus Inc.”) is the sole managing member of Focus LLC and is a public company traded on the NASDAQ Global Select Market. Focus Inc. owns approximately two-thirds of the economic interests in Focus LLC.

Focus Inc. has no single 25% or greater shareholder. Focus Inc. is the managing member of Focus LLC and has 100% of its governance rights. Accordingly, all governance is through the voting rights and Board at Focus Inc. As of the end of 2018, investment vehicles affiliated with Stone Point Capital, LLC (“Stone Point”) had a greater than 25% voting interest in Focus Inc., and Stone Point had the right to designate two of seven directors on the Focus Inc. Board. As of the end of 2018, investment vehicles affiliated with Kohlberg Kravis Roberts & Co. L.P. (“KKR”) had a less than 25% voting interest in Focus Inc., and KKR had the right to designate one of seven directors on the Focus Inc. Board.

Focus LLC also owns other registered investment advisers, broker-dealers, pension consultants, insurance firms, and other financial service firms (the “Focus Partners”), most of which provide wealth management, benefit consulting and investment consulting services to individuals, families, employers, and institutions. Some Focus Partners also manage or advise limited partnerships, private funds, or investment companies as disclosed on their respective Form ADVs.

Pursuant to a management agreement (the “Management Agreement”) between XML, Focus and BR Financial Associates Management Company, LL (the “Management Company”), the Management Company has agreed to provide persons to serve as officers of XML who, in such capacity, will be responsible for the management, supervision and oversight of XML. The Management Company does not provide investment advisory services.

As of December 31, 2018, the Firm managed \$451,900,000 in discretionary assets under management and \$18,000,000 in non-discretionary assets under management.

While this brochure generally describes the business of XML, certain sections also discuss the activities of its Supervised Persons, which refer to the Firm's officers, partners, directors (or other persons occupying a similar status or performing similar functions), employees and investment advisor representatives ("IARs") who provide investment advice on XML's behalf, and/or are subject to the Firm's supervision or control.

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

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As a compliment to its investment advisory services, XML provides advice in the form of financial planning. In general, XML offers clients a broad range of holistic financial planning and consulting services, including the following:

- Retirement Planning
- Cash Flow Planning
- Trust and Estate Planning
- Educational Planning
- Insurance Planning
- Tax Planning

Clients retain discretion over all decisions regarding the implementation of financial planning and consulting recommendations, and are under no obligation to act upon any of the recommendations made by XML regarding a financial planning or consulting engagement. Clients are advised that it remains their responsibility to promptly notify the Firm of any change in their financial situation or investment objectives for the purpose of reviewing, evaluating or revising XML's recommendations and/or services.

### **Investment Management Services**

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XML manages client investment portfolios primarily on a discretionary basis. XML allocates client assets among various investment products, such as mutual funds and exchange-traded funds ("ETFs"), as well as individual debt and equity securities, and options, in accordance with clients' stated investment objective.

XML tailors its advisory services to meet the needs of its individual clients and seeks to manage portfolios in a manner consistent with those needs and objectives. XML consults with clients on an initial and periodic basis to assess their specific risk tolerance, time horizon, liquidity constraints and other related factors relevant to the management of their portfolios. Clients are advised to promptly notify XML if there are changes in their financial situation or if they wish to place any limitations on the management of their portfolios. Should a client wish to impose reasonable restrictions or mandates on the management of their accounts they should submit such requests in writing to XML.

XML will monitor the performance of those accounts being managed by independent investment managers within separately managed accounts ("Independent Managers") and will have the ability to terminate or change an independent manager when the Firm believes there is a concern as to the ability of the respective manager to meet the client's investment objective. XML seeks to ensure the Independent

Managers' strategies and target allocations remain aligned with its clients' investment objectives. XML does not currently review Independent Managers as new investments as part of the Firm's Investment Management Services.

When agreed upon, the Firm will also provide advice about a legacy position or other investment held in client portfolios. Clients may engage XML to manage and/or provide advice on certain investment products that are not maintained under XML's primary custodian, Fidelity, such as and assets held in employer sponsored retirement plans and qualified tuition plans (i.e., 529 plans). These assets are generally maintained at the custodian designated by the product's provider. In these situations, XML recommends the allocation of client assets among the various investment options available within the product and it will be at the discretion of the client to act upon and provide instructions to the respective product custodian.

### **Retirement Plan Consulting Services**

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XML 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, including the following:

- 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 XML 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 XML's specific services to be rendered, whether such services are ERISA fiduciary services, and all direct and indirect compensation the Firm reasonably expects under the engagement.

### **ERISA Plan Services**

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XML is a fiduciary under the Employee Retirement Income Security Act of 1974, as amended ("ERISA") with respect to investment management services and investment advice provided to ERISA plan clients, including ERISA plan participants. XML is also a fiduciary under the Internal Revenue Code (the "IRC") with respect to investment management services and investment advice provided to ERISA plans, ERISA plan participants, IRAs and IRA owners (collectively, "Retirement Account Clients"). As such, XML is subject to specific duties and obligations under ERISA and the IRC that include, among other things,

prohibited transaction rules which are intended to prohibit fiduciaries from acting on conflicts of interest. When a fiduciary gives advice in which it has a conflict of interest, the fiduciary must either avoid or eliminate the conflict or rely upon a prohibited transaction exemption (a “PTE”).

A conflict of interest arises and the prohibited transaction rules are implicated when XML recommends that an ERISA plan participant take a distribution from an ERISA Plan and roll it over to an IRA that XML advises or if XML recommends that an IRA owner transfer his IRA to an IRA that XML advises because XML will receive compensation that it would not have received absent the recommendation – i.e., the IRA advisory fee. XML will follow the prudent man standard of conduct and duty of loyalty found in ERISA.

### **Non-Purpose Loans**

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Where it is deemed beneficial and appropriate based on a client’s risk tolerance and investment objectives, a non-purpose Loan may be utilized as part of their investment strategy. A non-purpose loan is a type of loan that uses an investment portfolio as loan collateral and the proceeds of which cannot be used to purchase, carry or trade securities. This type of loan allows investors access to funds without having to sell their investments for personal reasons, such as loans for education, real estate, taxes or other expenses. Such loans, using a client portfolio as collateral or use of options for leverage, has inherent high risk, are not advisable for the majority of clients, and will depend entirely on other client assets, client risk profile and appropriateness. XML is not a party to the contract and receives no compensation for this arrangement. The loan provider will receive interest payments on the loan from the client. There is no other affiliation between XML and the loan provider.

### **Wrap Fee Programs**

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Through our affiliated broker/dealer, Lara, May & Associates, LLC (“LMA”), Member FINRA/SIPC, Supervised Person’s operating under the DBA Lara May Advisors, a division of XML Financial Group, offer wrap fee advisory programs custodied at LMA’s clearing firm, First Clearing, a trade name used by Wells Fargo Clearing Services, LLC, Member SIPC, a registered broker-dealer and non-bank affiliate of Wells Fargo & Company (“Clearing Firm”). XML sponsors several wrap fee programs at the Clearing Firm whereby the client pays one fee that includes XML’s advisory management fee, performance reporting and custodial transaction charges, and a third party manager fee as indicated in the Program Agreement – thus the term “wrap” as the fees are considered wrapped together into one annual fee percentage, paid quarterly. This includes programs where an IAR is the portfolio manager and has an agreement in place with the client for providing discretionary asset management responsibilities or a program by which is “client directed”, meaning the client needs to provide consent for all recommended trades. XML and LMA have an agreement with Wells Fargo Advisors (“WFA”), a trade name used by Wells Fargo Clearing Services, LLC (“WFCS”), pursuant to which WFA provides advisory and/or other services with respect to the Programs custodied at the Clearing Firm. It is a non-bank affiliate of Wells Fargo & Company (“Wells Fargo”). LMA and XML are not related to or affiliated with WFA or the Clearing Firm. Unless otherwise specified, Clearing Firm will maintain custody of client assets. The Clearing Firm qualifies as a “qualified custodian” as described by Rule 206(4)-2 of the Investment Advisers Act. WFA and Clearing Firm each reserves the

right to reject and not provide services to any client or with respect to any client account for any reason. WFA provides advisory and other services to us and our clients with respect to the following programs: Masters, Diversified Managed Allocations (“DMA”), Wells Fargo Compass Advisory, Allocation Advisors, Customized Portfolios, and FundSource.

Please review the respective WFA Wrap Fee Program Brochure Disclosure Documents for a complete description of each program. Read the program agreements carefully as they provided details on the servicing of the account, what costs are included, what costs aren’t included and the fee billing details. **A separate XML Form ADV Part 2A Appendix 1 Wrap Fee Program Brochure (“Wrap Fee Program Brochure”) is provided along with the account Program Agreement. The Wrap Fee Program Brochure is made available free of charge by using the contact information on the cover page of this document.**

## Item 5. Fees and Compensation

XML offers services on a fee basis, which include fixed and/or hourly fees, as well as an annual fee percentage based upon assets under management or advisement. Additionally, certain IARs, in their individual capacities, are able to provide securities brokerage services and/or insurance products under separate commission-based arrangements. See *Item 10. Other Financial Industry Activities and Affiliations* for more information regarding the compensation associated with IAR’s providing other products and services outside of XML.

### Financial Planning and Consulting Fees

In certain client situations, XML is able to charge a fixed fee for financial planning and consulting services. These fees are negotiable, but range from \$1,000 to \$10,000, depending upon the scope and complexity of the services and the professional rendering the financial planning and/or the consulting services. If the client engages the Firm for additional investment management services, XML 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, at the Firm’s discretion. The terms and conditions of the financial planning and/or consulting engagement are set forth in a Financial Planning Agreement. XML generally requires one-half of the fee (estimated hourly or fixed) payable upon execution of the Advisory Agreement. The outstanding balance is generally due upon delivery of the financial plan or completion of the agreed upon services. The Firm will not, however, take receipt of \$1,200 or more in prepaid fees in excess of six months in advance of services rendered. For smaller projects some IARs can provide services on an hourly fee as negotiated and agreed upon by the client. The per hour fee rate usually ranges from \$100 - \$250/hour, but could be more or less as agreed upon. The fee is paid via a Firm generated invoice which summarizes the scope of project. Agreement is necessary from the client before work is commenced.

If the client is not satisfied with the completed service, a full refund of the fee paid, less any out-of-pocket Firm expenses, can be requested in writing to the Firm, Attn: Compliance Department within thirty (30) days of the receipt of completed service. All payments for invoices should be made payable to “XML

Financial, LLC” and mailed per the invoice instruction and not to any individual Supervised Person or IAR.

### Investment Management Fees

XML offers investment management services for an annual fee based on the amount of assets in designated accounts under the Firm’s management (“fee”). The chart below is the Firm’s recommended fee schedule.

<u>PORTFOLIO VALUE</u>	<u>BASE FEE</u>	<u>AGGREGATE FEE*</u>
First \$1,000,000	1.25%	1.25%
Next \$2,000,000	1.00%	1.00%
Next \$1,000,000	0.90%	0.90%
Next \$1,000,000	0.80%	0.88%
Next \$1,000,000	0.70%	0.85%
Next \$1,000,000	0.60%	0.81%
Next \$1,000,000	0.50%	0.78%
Next \$1,000,000	0.40%	0.73%
Next \$1,000,000	0.30%	0.69%
Next \$1,000,000	0.20%	0.65%
Next \$1,000,000	0.20%	0.61%
Next \$1,000,000	0.20%	0.58%
Next \$1,000,000	0.20%	0.55%
Next \$1,000,000	0.20%	0.53%
Above \$15,000,000	Negotiable	

\* The “aggregate fee” is the blended fee that a client will pay at the top of the range. For example, the fee will be 0.90% of assets where the assets under management are \$4,000,000.

As of April 1, 2018, the recommended investment management fee will be based on the chart above for new clients to the Firm. Legacy clients prior to this date are charged based on a different fee schedule as identified in their Advisory Agreement.

The fee for the first quarter is billed in arrears and is prorated and paid based upon the value of assets being managed by the firm at the time the account is funded by such assets. The fee for subsequent quarters is billed quarterly, in advance and is prorated and paid based upon the average daily balance of the assets in the previous quarter. In the event the advisory agreement is terminated, the fee for the final billing period is prorated through the effective date of the termination and the outstanding or unearned portion of the fee is applied or refunded to the client.

Additionally, for services the Firm provides with respect to certain client holdings XML will negotiate a fee rate that differs from the range set forth above to reflect administrative and reporting services provided by the Firm.

### **Third Party Manager Services**

XML offers the third party manager services of Morningstar Managed Portfolios ("MMP") program sponsored by Morningstar Investment Services ("MIS") with models of Mutual Fund Portfolios, Exchange Traded Fund ("ETFs") Portfolios, and Select Stock Baskets. The following firms provide custodial and administrative services for the MMP: BNY Mellon Investment Servicing Trust Company ("BNY Mellon"), Fidelity Brokerage Services LLC and National Financial Services, LLC (collectively, "Fidelity") and Schwab. The annual program fees and transaction costs vary depending on the Portfolio structure, fee plan and custodian selected.

There is a separate MIS manager charge and custodian charge that will be selected by the client as either a "per transaction" charge or as a flat percentage basis point "bps". The individual fees and terms are outlined and described in the MIS Proposal and Application Agreement.

The XML advisory fees for the MMP range from 0.75% - 1.10%, the MIS fees range from 0.30% - 0.55%, and the custodians charges range from \$7.95/trade to \$10.95/trade or 0.10% in a flat basis point format (minimum fees apply), which the client selects as part of the application.

The specifics of what the fees cover and how they are billed are detailed in the respective Account Proposal, Application and Custodial Agreement. The Agreement can be terminated at any time (including within five business days of entering into the agreement) without the imposition of any penalty upon written notice by the client or MIS to the other and termination will become effective on receipt of such notice. If the value of an account falls below the minimum size of \$50,000 due to withdrawals or market action, MIS can terminate the account. Any termination by MIS or the client will not, however, affect the liabilities or obligations of the parties incurred or arising from transactions in Fund Shares initiated under the Agreement before such termination.

### **Retirement Plan Consulting Fees**

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XML offers 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, as memorialized in the Agreement. These fees vary, based on the scope of the services to be rendered.

### **529 Accounts**

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XML receives compensation related to investment advisory services for 529 Plans. The fee paid by each client is dependent upon the 529 plan selected, the mutual fund share class of 529 investments and amount of assets held by the account. For clients opening new 529 accounts with institutional or advisory mutual fund share classes, the advisory fee for those assets is generally billed at 0.75%. For clients converting existing 529 accounts that are only invested in brokerage based class C shares to institutional shares, the advisory fee for those, and future assets, will be billed at 0.75%. For clients converting

existing 529 accounts that are only invested in class A shares to institutional shares, the advisory fee for those, and future assets, will be billed at 0.20%. For clients converting other types of 529 plan structures the advisory fee will be determined on a case by case basis.

### **Fee Discretion**

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XML's fees are negotiable between the IAR and client based upon certain criteria, such as anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, scope of work, related accounts, account position composition, pre-existing/legacy client relationship, account retention and special considerations for certain non-profit groups or charitable organizations. Similarly, specific financial planning fees and consulting fees are negotiable based on the needs of the client.

Across the Firm, clients will likely pay different fee annual percentages based on the above mentioned considerations. Likewise, some IARs have their own style of servicing, capabilities and areas of expertise. IARs typically offer their immediate family or related accounts a lower or no-fee option and/or choose to cover the costs themselves.

### **Additional Fees and Expenses**

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In addition to the fees paid to XML, clients will also incur certain charges imposed by other third parties, such as broker-dealers, custodians, trust companies, banks and other financial institutions (collectively "Financial Institutions"). These additional charges include securities brokerage commissions, transaction fees, custodial fees, fees attributable to alternative assets, fees charged by the Independent Managers, margin costs, charges imposed directly to the investor by a mutual fund or ETF in a client's account, as disclosed in the fund's prospectus (*e.g.*, fund management fees and other fund expenses), odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on the custodial account and securities transactions. The Firm's brokerage practices are described at length in Item 12, below.

### **Direct Fee Debit**

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Clients provide XML and/or certain Independent Managers with the authority to directly debit their accounts for the payment of the investment management fees. Other fees not covered by the investment management fee will be directly debited from the account or be separately paid by the client to the custodian.

### **Use of Margin**

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XML may be authorized to use margin in the management of a client's account. In these cases, the fee payable will be assessed net of margin such that the market value of the client's account and the corresponding fee payable to XML will not be increased based on the use of margin. The Firm does not expect to use margin for investment recommendations often, but may do so for a client's cash needs.

### Account Additions and Withdrawals

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Clients generally make frequent additions and withdrawals from their account and are able to do so subject to XML's right to terminate an account. The Firm reserves the right to liquidate any transferred securities or decline to accept securities into a client's investment management account. Clients may withdraw account assets subject to the usual and customary securities settlement procedures. The Firm designs its portfolios as long-term investments and the withdrawal of material assets may impair the achievement of a client's investment objectives. XML will consult with its clients about the options and implications of transferring securities. Clients are advised that when transferred securities are liquidated, they will likely be subject to transaction fees, short-term redemption fees, fees assessed at the mutual fund level (e.g., contingent deferred sales charges) and/or tax ramifications.

### Affiliated Broker Dealer

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Some of XML's IARs are also a registered representative ("RR") of the affiliate broker dealer, Lara, May & Associates, LLC, Member FINRA/SIPC ("LMA"). The term "registered" does not imply any level of skill or training. Clients may engage an RR to render securities brokerage services under a separate commission-based arrangement. Clients are under no obligation to engage an RR and may choose brokers or agents not affiliated with XML to implement brokerage transactions.

The respective RR will be entitled to a percentage of the brokerage commissions paid to LMA, as well as a share of any ongoing distribution or service (trail) fees from the sale of mutual funds. RR's are able to recommend no-load or load-waived funds, where no sales charges are assessed. Prior to effecting any securities brokerage transactions, clients are required to enter into a separate brokerage account agreement with LMA and the Clearing Firm or directly with the product provider per LMA's selling agreement. Brokerage activities are separate from XML advisory services and compensation received through LMA is in addition to compensation charge to the client and received by an IAR per XML investment advisory activities.

The separate activity as a RR presents a conflict of interest and provides RRs an incentive to recommend investment products based on the separate compensation that they can receive rather than in the client's best financial interest. XML provides investment advice, described in Item 4 herein, in the best interest of advisory clients, and will monitor RRs separate compensation received as a result of engaging in brokerage services with XML clients. FINRA provides a publically available portal to view broker/dealer firm and RR background information through <https://brokercheck.finra.org>.

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

XML does not provide any services for a performance-based fee (i.e., a fee based on a share of capital gains or capital appreciation of a client's assets).

## Item 7. Types of Clients

XML offers investment advisory services to individuals (including high net worth individuals), corporations, business entities, pension and profit sharing plans, charitable organizations, trusts and estates.

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

### Methods of Analysis and Investment Strategies

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XML utilizes technical and fundamental methods of analysis. Fundamental analysis involves an evaluation of the fundamental financial condition and competitive position of a particular investment. For XML the technical process typically involves 30 or more analytical measurements. Some of those measures might include past performance, style drift, allocation of assets and sector rotation.

XML incorporates some stocks into its portfolios as well. The Firm uses outside, independent research to determine the technical and fundamental characteristics of any individual company. XML looks for companies that might be out of favor and pay healthy dividends or solid growth companies. There is no limit on what type of stock may be purchased as long as it is consistent with the client's stated investment objectives.

For IARs who manage client assets via separate accounts, they conduct their own independent research and review of a respective manager to assess the manager's suitability for the individual client that is recommended. They have developed their own areas of expertise and have individual style preferences. This research involves all or a combination of utilizing reputable third party research reports and rating services, publications about the managers, commentary provided by the manager, the IAR's own experiences, and prospectus materials. Investing involves risk including the risk of loss that clients should be prepared to bear. IAR's provide investment advice based on the client's unique needs and circumstances. As part of this process, consideration is based on several factors when developing investment strategies and analyzing specific securities, categories, products or types of investment vehicles. Generally, methods of analysis include: industry research reports, subscription ranking and reporting services, public reports, material provided by the investment company, discussions with product providers, personal experience and attendance at industry events.

### Risks of Loss

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#### *Market Risks*

Investing involves risk, including the potential loss of principal, and all investors should be guided accordingly. The profitability of a significant portion of XML Financials' recommendations and/or

investment decisions may depend to a great extent upon correctly assessing the future course of price movements of stocks, bonds and other asset classes. There can be no assurance that XML Financial will be able to predict those price movements accurately or capitalize on any such assumptions.

### *Cybersecurity*

The computer systems, networks and devices used by XML, Supervised Persons, and service providers to us and our clients to carry out routine business operations employ a variety of protections designed to prevent damage or interruption from computer viruses, network failures, computer and telecommunication failures, infiltration by unauthorized persons and security breaches. Despite the various protections utilized, systems, networks, or devices potentially can be breached. A client could be negatively impacted as a result of a cybersecurity breach.

Cybersecurity breaches can include unauthorized access to systems, networks, or devices; infection from computer viruses or other malicious software code; and attacks that shut down, disable, slow, or otherwise disrupt operations, business processes, or website access or functionality. Cybersecurity breaches may cause disruptions and impact business operations, potentially resulting in financial losses to a client; impediments to trading; the inability by us and other service providers to transact business; violations of applicable privacy and other laws; regulatory fines, penalties, reputational damage, reimbursement or other compensation costs, or additional compliance costs; as well as the inadvertent release of confidential information.

Similar adverse consequences could result from cybersecurity breaches affecting issuers of securities in which a client invests; governmental and other regulatory authorities; exchange and other financial market operators, banks, brokers, dealers, and other financial institutions; and other parties. In addition, substantial costs may be incurred by these entities in order to prevent any cybersecurity breaches in the future.

### *Mutual Funds and ETFs*

An investment in a mutual fund or ETF involves risk, including the loss of principal. Mutual fund and ETF shareholders are necessarily subject to the risks stemming from the individual issuers of the fund's underlying portfolio securities. Such shareholders are also liable for taxes on any fund-level capital gains, as mutual funds and ETFs are required by law to distribute capital gains in the event they sell securities for a profit that cannot be offset by a corresponding loss.

Shares of mutual funds are generally distributed and redeemed on an ongoing basis by the fund itself or a broker acting on its behalf. The trading price at which a share is transacted is equal to a fund's stated daily per share net asset value ("NAV"), plus any shareholders fees (e.g., sales loads, purchase fees, redemption fees). The Firm may invest in closed-end mutual funds where the actual NAV fluctuates with intraday changes to the market value of the fund's holdings. The trading prices of a closed-end mutual fund's shares may differ significantly from the NAV during periods of market volatility, which may, among other factors, lead to the closed-end mutual fund's shares trading at a premium or discount to actual NAV.

Shares of ETFs are listed on securities exchanges and transacted at negotiated prices in the secondary market. Generally, ETF shares trade at or near their most recent NAV, which is generally calculated at least once daily for index-based ETFs and potentially more frequently for actively managed ETFs.

However, certain inefficiencies may cause the shares to trade at a premium or discount to their pro rata NAV. There is also no guarantee that an active secondary market for such shares will develop or continue to exist. Generally, an ETF only redeems shares when aggregated as creation units (usually 20,000 shares or more). Therefore, if a liquid secondary market ceases to exist for shares of a particular ETF, a shareholder may have no way to dispose of such shares.

Mutual Funds and ETFS that employ alternative strategies such as long/short investment management, or the management of leveraged positions through derivatives involve a higher risk of volatility and loss of principal.

#### *Options*

The use of options enables XML to increase buying power and take advantage of a greater number of undervalued situations than would be the case if leverage were not used. Options could materially increase the risk of loss in investment portfolios. While leverage presents the potential opportunity for increasing total return, it has the potential for increasing losses as well. Any event which adversely affects the value of an investment would be magnified to the extent leverage is employed.

#### *Independent Managers*

XML reviews certain Independent Managers on behalf of clients. The performance of those assets managed by Independent Managers will depend to a great extent on the Independent Managers' ability to successfully implement their investment strategies.

## **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 or the integrity of adviser's management. XML has no information applicable to this Item.

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

This item requires investment advisers to disclose certain financial industry activities and affiliations. XML does not believe the Focus Partnership presents a conflict of interest with our clients. As noted above in response to Item 4, certain investment vehicles managed by Stone Point collectively are principal owners of Focus LLC and Focus Inc., and certain investment vehicles managed by KKR collectively are minority owners of Focus LLC and Focus Inc. Because XML is an indirect, wholly-owned subsidiary of Focus LLC

and Focus Inc., the Stone Point and KKR investment vehicles are indirect owners of XML. None of Stone Point, KKR, or any of their affiliates participates in the management or investment recommendations of our business.

XML has a relationship with and shares personnel and executive staff with a local affiliate broker dealer, LMA. XML clients can be offered brokerage services as discussed in Item 5. LMA offers brokerage services to clients other than advisory clients of XML.

XML has entered into a Services Agreement with FI Services, LLC (“FIS”), which is a wholly-owned subsidiary of FI Services Holdings, LLC (“FIS Holdings”), a wholly-owned subsidiary of Focus Operating. Under the Services Agreement, FIS has agreed to provide to, or procure for, XML Financial administrative services including advisory fee calculation, record maintenance and report preparation services, as well as other administrative back-office support services, such as payroll, accounting, initial marketing support, and education programs. FIS will be providing these services both directly and indirectly through unaffiliated technology companies and other service providers.

Employees of FIS Holdings who provide services on behalf of FIS to XML pursuant to the Services Agreement also provide services to registered investment advisory firms other than XML. FIS and FIS Holdings will monitor the workload of those employees to ensure that this arrangement does not materially affect FIS’ ability to carry out its responsibilities to XML Financial under the Services Agreement. If necessary, additional staff will be hired to perform services for FIS.

FIS will allocate its costs for the services provided directly by FIS among XML and any other registered investment advisory firms that FIS supports. All costs incurred by FIS for services provided by third-party vendors for XML’s benefit will be passed through to XML.

XML does not believe that the Services Agreement poses a material conflict of interest to its clients, as the services provided by FIS to XML Financial will be provided without mark-up by FIS.

XML has added a new business development division, XML-W Wealth Management. This division is a marketing arm of the Firm and does not perform advisory functions.

### **Registered Representatives of a Broker-Dealer**

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Many IAR’s are also RRs of LMA and may provide clients with securities brokerage services under a separate commission-based arrangement. This arrangement is described in more detail under Item 5.

### **Licensed Insurance Agency**

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A number of the Firm’s Supervised Persons are also licensed insurance agents and are able to recommend or offer certain insurance products on a fully-disclosed commissionable basis through a producer firm agency or LMA, also a producer firm agency and affiliated broker/dealer. Please refer to the Supervised Person’s individual 2B Supplement for more information. A conflict of interest exists to the

extent that XML recommends the purchase of insurance products where its Supervised Persons are entitled to insurance commissions separate from and in addition to compensation received for other XML provided services. The Firm has procedures in place whereby it seeks to address that recommendations are made in the clients' best interest regardless of any such affiliation. XML clients are in no way obligated to purchase insurance products recommended to a referred producer firm agency or LMA.

## **Item 11. Code of Ethics, Participation in Client Transactions and Personal Trading**

XML has adopted a code of ethics in compliance with applicable securities laws ("Code of Ethics") that sets forth the standards of conduct expected of its Supervised Persons. XML's Code of Ethics contains written policies reasonably designed to prevent certain unlawful practices such as the use of material non-public information by the Firm or any of its Supervised Persons, or trading by the Firm or any of its Supervised Persons in a manner that does not place clients' interests first.

The Code of Ethics also requires certain of XML's personnel to report their personal securities holdings and transactions and obtain pre-approval of certain investments (*e.g.*, initial public offerings, limited offerings). However, the Firm's Supervised Persons are permitted to buy or sell securities that they also recommends to clients if done in a fair and equitable manner that is consistent with the Firm's policies and procedures. This Code of Ethics has been established recognizing that some securities trade in sufficiently broad markets to permit transactions by certain personnel to be completed without any appreciable impact on the markets of such securities. Therefore, exceptions will be made to the policies stated below.

When the Firm is engaging in or considering a transaction in any security on behalf of a client, no Supervised Person with access to this information may knowingly effect for themselves or for their immediate family (*i.e.*, spouse, minor children and adults living in the same household) a transaction in that security unless:

- the transaction for the client has been completed;
- the transaction for the Supervised Person is completed as part of a batch trade with clients; or
- a decision has been made not to engage in the transaction for the client.

These requirements are not applicable to transactions in the following securities and instruments: (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.

IAR's manage multiple client accounts and often could be recommending the purchase or sale of a security or buying or selling a security in a client's account where another IAR's could be on the opposite side unbeknownst by each of the IAR's. The individual client's positions, liquidity needs,

unsolicited trades and rebalancing of client accounts can occur and clients could receive various pricing. A review of Firm trading logs often identifies instances where a Code of Ethics violation occurs. Where the Firm is recommending the buy, hold or sell of a security, this will be communicated to all Supervised Persons.

Clients and prospective clients may contact XML to request a copy of its Code of Ethics.

## **Item 12. Brokerage Practices**

### **Recommendation of Broker-Dealers for Client Transactions**

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XML generally recommends that clients utilize the custody, brokerage and clearing services of Fidelity for investment management accounts.

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

As XML will not request the discretionary authority to determine the broker dealer to be used or the commission rates to be paid for securities transactions, clients must direct XML as to the broker dealer to be used. In directing the use of a particular broker or dealer, it should be understood that XML will not have authority to negotiate commissions among various brokers or obtain volume discounts, and best execution may not be achieved. Not all investment advisors require clients to direct the use of specific brokers. XML periodically and systematically reviews its policies and procedures regarding its recommendation of Fidelity or other brokers.

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

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XML receives, without cost from the custodians whom we recommend, computer software and related systems support which allow XML to better monitor client accounts maintained at the custodian. The Firm receives this support without cost because the Firm renders investment management services to clients who maintain assets at the custodian. 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 and benefit XML, but not the Firms’ clients directly. In fulfilling its duties to its clients, the Firm endeavors at all times to put the interests of its clients first. Clients should be aware, however, that XML receipt of economic benefits from a custodian creates a conflict of interest since these benefits may influence the Firm’s recommendation of one custodian over another that does not furnish similar software, systems support or services.

Also, to assist with the launch of XML in 2016, XML received \$200,000 from Fidelity to be used toward start-up and transition related expenses. This benefit presents a conflict of interest related to XML's recommendation of Fidelity. XML periodically reviews Fidelity's services as described above.

### **Soft Dollars**

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XML and Fidelity Brokerage Services, LLC ("Fidelity") have an agreement that enables XML to receive certain brokerage and research products and services, as agreed to from time to time, by the parties that qualify as "brokerage" or "research services" under Section 28(e) of the Securities Exchange Act of 1934 ("28(e)", "Exchange Act"). XML and Fidelity intend the arrangements covered by the agreement are to operation within the safe harbor conditions of 28(e). From time to time, XML will direct to Fidelity orders for the purchase and sale of securities for accounts with respect to which XML exercises "investment discretion" and with respect to which Fidelity or the executing broker, as applicable, has acted as agent within the meaning of 28(e) transactions. XML agrees that such credits: (i) will only accumulate in the 28(e) Commission Credit Pool on permitted trades designated by XML; (ii) represent credits available to Advisor solely for the purpose of purchasing eligible research and brokerage services, as those terms are used in 28(e), requested by XML and approved by Fidelity; (iii) do not represent funds payable to XML or an client of XML; (iv) are not credit balances on which Fidelity will pay interest; and (v) are not customer property as defined by the Securities Investor Protection Act of 1970 or protected by the Securities Investor Protection Corporation.

### **Brokerage for Client Referrals**

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XML does not consider, in selecting or recommending broker-dealers, whether the Firm receives client referrals from the Financial Institutions or other third party.

### **Trade Aggregation**

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Transactions for each client generally will be effected independently, unless XML decides to purchase or sell the same securities for several clients at approximately the same time. XML 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 Firm's clients differences in prices and commissions or other transaction costs that might not have been obtained had such orders been placed independently. Under this procedure, transactions will generally be averaged as to price and allocated among clients pro rata to the purchase and sale orders placed for each client on any given day. To the extent that the Firm determines to aggregate client orders for the purchase or sale of securities, including securities in which XML's Supervised Persons may invest, the Firm generally does so in accordance with applicable rules promulgated under the Investment Advisers Act of 1940 and no-action guidance provided by the staff of the SEC. XML does not receive additional compensation or remuneration as a result of the aggregation.

In the event that the Firm 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 Firm 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 rotating basis.

## Item 13. Review of Accounts

### Account Reviews

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XML monitors client portfolios on a continuous and regular basis. Such reviews are conducted by the client's relationship manager. All investment advisory clients are encouraged to discuss their needs, goals and objectives with XML. The Firm contacts ongoing investment advisory clients at least annually to review its services and/or the recommendations in place. Clients are encouraged to contact their relationship manager regarding changes to their information and circumstances previously communicated to XML. Clients are also encouraged to review their statements regularly.

### Account Statements and Reports

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XML provides performance reports to clients on a periodic basis. The Financial Institutions that act as the qualified custodian for client accounts will send statements to clients not less than quarterly detailing all account transactions, including fees paid to XML. **Clients should carefully review the statements sent directly by the Financial Institutions and compare them to those received from XML.** Clients should review such statements and compare such official custodial records to reports or information provided directly by XML or is viewed via a custodial feed in a third party software or online portal. Statements from different custodians can vary from one to another based on their accounting procedures, reporting dates, or valuation methodologies of certain securities.

## Item 14. Client Referrals and Other Compensation

The Firm does not currently provide compensation to any third-party solicitors for client referrals. However, the Firm may, at the discretion of Firm management, award a bonus to employees who refer new clients to the Firm. There is no residual compensation paid to employees.

### Sponsorships

XML's parent company is Focus Financial Partners, LLC ("Focus"). From time to time, Focus holds partnership meetings and other industry and best-practices conferences, which typically include XML Supervised Persons, other Focus firms and external attendees. These meetings are first and foremost intended to provide training or education to personnel of Focus firms, including XML. However, the meetings do provide sponsorship opportunities for asset managers, asset custodians, vendors and other third-party service providers. Sponsorship fees allow these companies to advertise their products and services to Focus firms, including XML. Although the participation of Focus firm personnel in these meetings is not preconditioned on the achievement of a sales target for any conference sponsor, this practice could nonetheless be deemed a conflict as the marketing and education activities conducted, and the access granted, at such meetings and conferences could cause XML to focus on those conference sponsors in the course of its duties. Focus attempts to mitigate any such conflict by allocating the sponsorship fees only to defraying the cost of the meeting or future meetings and not as revenue for itself or any affiliate, including XML. Conference sponsorship fees are not dependent on assets placed with any specific provider or revenue generated by such asset placement.

### Wholesaler events, conferences and third party sponsorships

Mutual fund companies and product wholesalers often provide education opportunities, conferences and in-office meetings about their products and services for Supervised Persons. These meetings are held for those individuals who are interested in attending. The wholesaler typically pays for lunch for in-office meeting attendees. On occasion, wholesalers will also sponsor client events and contribute a monetary amount directly to the venue location or an event vendor. Sponsors are disclosed on the respective event invitation or notice. Wholesalers can make charitable contributions to events or organizations that a Supervised Person is involved with.

Supervised Persons also attend company seminars or conferences that are paid by fund companies or product sponsors. Travel and event attendance costs are covered by the product company. All sponsorship requests require prior Firm approval and are logged for tracking purposes to review for potential conflicts of interest. Wholesaler monetary contributions are monitored for the appearance of favoritism or questionable activity. While these measures are in place, nevertheless this could create a conflict of interest in the selection of choosing one investment over the other. Per fiduciary principles, an IAR should do what is in the client's best interest without regard for the IAR's of Firm's financial interest.

### Speaking engagements

On occasion Supervised Persons are asked to speak in an educational format on topics they are knowledgeable on. The audience varies between industry professionals, representatives from organization or individual retail consumers. We are supportive of our employees sharing their knowledge and expertise on important subject matters. While the majority of the speaking engagements are voluntary, sponsors of the events are allowed to provide the presenter with compensation for their

time and preparation work. This could be in the form of a gift card, reimbursement of travel and/or meal expenses, or payment directly to XML as compensation for the speaker/Supervised Person. All compensation paid in this manner will be logged and reviewed for potential conflicts of interest if paid by a product or service provider related to insurance, investment advisory or securities business through XML or our affiliated broker/dealer, LMA. Compensation of this nature cannot be paid directly to a Supervised Person.

### **Item 15. Custody**

The Advisory Agreement and/or the separate agreement with any Financial Institution generally authorizes XML and/or the Independent Managers to debit client accounts for payment of the Firm's fees and to directly remit those funds to the Firm in accordance with applicable Advisory Agreement and custody rules. The Financial Institutions that act as the qualified custodian for client accounts, from which the Firm retains the authority to directly deduct fees, will send statements to clients not less than quarterly detailing all account transactions, including any amounts paid to XML.

XML does not maintain physical custody of client assets; client assets are custodied by one or more of the Qualified Custodians. Based on the definition of custody per SEC Rule 206(4)-2 ("Custody Rule") under the Investment Advisors Act of 1940, XML is deemed to have custody of client funds because of Standing Letters of Authorization ("SLOAs") entered into by certain clients, which provide XML with the authority to initiate transfers of client funds pursuant to and within the scope of a pre-defined authorization agreement established by the client. Additionally, XML is deemed to have custody because the Adviser may accept cash and/or securities from clients for deposit to the Qualified Custodian. The SEC requires that Firms who have such custody status engage an accounting firm registered with the PCAOB to perform a surprise examination of accounts by which the Firm is both deemed to have custody and are subject to the surprise examination each calendar year.

### **Item 16. Investment Discretion**

XML is given the authority to exercise discretion on behalf of clients who enter into an XML Discretionary Investment Management Agreement or other such agreement granting discretionary authority. XML is considered to exercise investment discretion over a client's account if it can effect and/or direct transactions in client accounts without first seeking the account owner's consent. XML is given this authority through a power-of-attorney included in the Discretionary Investment Management Agreement between XML and the client. Clients may request a limitation on this authority (such as certain securities not to be bought or sold). XML takes discretion over the following activities:

- The securities to be purchased or sold;
- The Independent Managers to be hired or fired;
- The amount of securities to be purchased or sold; and

- When transactions are made.

### **Item 17. Voting Client Securities**

XML does not accept the authority to vote a client's securities (i.e., proxies) on their behalf. Clients receive proxies directly from the Financial Institutions where their assets are custodied and may contact the Firm at the contact information on the cover of this brochure with questions about any such issuer solicitations.

### **Item 18. Financial Information**

XML is not required to disclose any financial information due to the following:

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

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