

CLS Investments, LLC
FORM ADV Part 2A, Appendix 1
Wrap Fee Program Brochure
4020 South 147th Street, Omaha, Nebraska 68137
888-455-4244
www.clsinvest.com
November 1, 2011

This wrap fee program brochure provides information about the qualifications and business practices of CLS Investments, LLC (“CLS”). If you have any questions about the contents of this wrap fee program brochure, please contact us at 888-455-4244 or www.clsinvest.com. The information in this wrap fee program brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

CLS is a registered investment adviser with the SEC. Registration as an investment adviser does not imply any certain level of skill or training. Additional information about CLS is also available on the SEC’s website at www.adviserinfo.sec.gov. The SEC’s website also provides information about anyone affiliated with CLS who is registered as an investment adviser representative of CLS.

Item 2 Material Changes

This wrap fee program brochure was updated on November 1, 2011 to include two new wrap fee investment management services offered by CLS. These two new services are called ETF Managed Income Portfolio and Master Manager Managed Income. A complete description of each strategy is included in this wrap fee program brochure. CLS also amended Item 9 to include its services as interim investment adviser to The Milestone Funds.

Currently, our wrap fee program brochure may be requested by contacting us at 888-455-4244 or at cls-insidesales@clsinvest.com. Our wrap fee program brochure is also available on our website at www.clsinvest.com free of charge.

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Item 4 Services, Fees and Compensation

The purpose of this wrap fee program brochure is to describe the wrap fee program sponsored by us, where we offer investment advice and costs of trade executions to you for an all-inclusive wrap fee. The wrap fee program is only available on select platforms as indicated in our current marketing materials, with select strategies as described below, and typically only for accounts larger than \$150,000. Additional details regarding our business may be obtained by consulting our Form ADV Part 2A, which is available online at www.clsinvest.com or by calling (888) 455-4244.

We offer six different investment strategies under our wrap fee program, which can be classified using either adaptive risk allocation or dynamic asset allocation methodologies.

Adaptive risk allocation is a unique combination of asset allocation and risk management that consists of four (4) elements: diversification, risk budgeting, relative strength, and asset class risk analysis.

Diversification is the process of placing a percentage of your portfolio into different areas of the market. We use market risk and trend analysis in conjunction with your individual goals and risk budget to determine which sectors of the market are right for your portfolio. Risk budgeting is the spending allowance with regard to risk that we allow for your portfolio. The risk associated with each investment is carefully considered before it is added to your portfolio. Under risk budgeting, you are assigned a risk budget and each security (fund) is assigned a risk value primarily based on volatility. The risk budget is expressed as a percentage of the risk relative to a diversified equity portfolio. For example, a risk budget of 100 would represent a portfolio with a risk similar to 100% of the risk of a diversified equity portfolio and a portfolio with a risk budget of 60% would represent a portfolio with a risk similar to 60% of the risk of a diversified equity portfolio. The diversified equity portfolio or "equity baseline" is determined by us and reflects a diversified equity allocation comprised of an allocation to large cap growth, large cap value, mid cap, small cap, and developed and emerging international equities. Risk budgeting allows for investments of different types to be compared and ensures your allocations are better in line with your objectives. Because we utilize risk budgeting and the investment choices available have varying risk levels, if you elect to assign a stock-to-bond ratio to your portfolio, the risk budget will deviate around a target stock-to-bond ratio. At times, we may increase positions in money market funds, bond funds, balanced funds, or lower risk equity funds which may cause a further deviation from your target stock-to-bond allocation. Relative Strength is the momentum and duration of a trend, either up or down. The relative strength of each asset is carefully considered on a risk-adjusted basis. We typically place the greatest emphasis on trend periods of about 4 to 5 months in length. Asset Class Risk Analysis determines when it is best to stay invested in a particular asset and when it is time to reallocate to an asset class with a better risk/reward potential.

Dynamic asset allocation is a strategy that involves periodic rebalancing of a portfolio to readjust the portfolio back to its long-term asset targets. This strategy involves reducing positions in the best-performing asset class, while adding to positions in underperforming assets. The general goal of

dynamic asset allocation is to reduce fluctuation risks and achieve returns that exceed the target benchmark.

Our Adaptive risk allocation methodology is used for our Wealth Accumulation strategies and our Dynamic asset allocation methodology is used for our Income and Protection strategies.

WEALTH ACCUMULATION

We actively manage the Wealth Accumulation services in order to pursue return opportunities corresponding with your risk budget. Asset class attractiveness is determined through the use of fundamental, statistical, and relative strength analysis and client portfolios are adjusted to take advantage of changes to the attractiveness of each asset class as determined by our portfolio managers.

a. ETF Portfolio

The ETF Portfolio investment management service utilizes an adaptive risk allocation strategy. The strategy uses diversification, risk budgeting, relative strength, and asset class risk analysis to diversify your portfolio primarily among exchange traded funds (“ETFs”) through investment platforms at designated custodians, according to your objectives determined from your Client Profile. This service may be best suited for clients wishing to invest across multiple ETFs. The ETF Portfolio investment management service may also use mutual funds for certain asset classes not readily accessible in ETF products.

The standard fee schedule for this service is:

<u>Flat Rate Annual Percentage</u>
1.65%

The minimum account size is \$150,000 per registration.

b. ETF Managed Income Portfolio

The ETF Managed Income Portfolio investment management service utilizes an adaptive risk allocation model to manage an account for clients seeking income from a diversified portfolio of income-producing assets. The strategy seeks to help clients with a desire for regular income meet their short and long-term income needs by dividing the account into three separate investment portfolios: immediate, short-term, and long-term.

If you enroll in this strategy you may elect to designate a specific amount of assets needed to satisfy your immediate income needs. These assets will be set aside in a low-risk cash account and available for immediate, systematic withdrawals. The default amount is three months worth of desired withdrawals; however, the strategy allows you to specify your desired amount. You may then designate a specific

amount of assets needed to satisfy your short-term income needs. These assets will be invested in a low-risk reserve portfolio that will seek to generate returns in excess of the average money market fund with risk less than or equal to low duration investment bonds. CLS recommends one to two years worth of withdrawals; however, the strategy allows for you to specify your desired amount (including zero assets in the low-risk reserve portfolio). The remainder of your account will be set aside in a long-term portfolio invested primarily in income or interest-generating investments. The proceeds from this portfolio will be used to replenish the reserve portfolio which, in turn, is used to replenish the cash account. If the client has elected not to establish a reserve portfolio or cash account, income generated from these investments will be distributed directly to the client or reinvested.

The strategy uses diversification, risk budgeting, relative strength, and asset class risk analysis to diversify your long-term portfolio among exchange traded funds ("ETFs") through investment platforms at designated custodians, according to your objectives determined from your Client Profile. Assets designated for this portfolio will seek to provide long-term growth and a steady stream of income.

The standard fee schedule for this service is:

Flat Rate Annual Percentage

1.65%

The minimum account size is \$250,000 per registration.

c. Master Manager

The Master Manager investment management service utilizes an adaptive risk allocation strategy in which you will be invested in exchange traded funds ("ETFs"), bonds, individual securities and/or mutual funds with us acting as the asset allocation overlay manager. The strategy uses diversification, risk budgeting, relative strength and asset class risk analysis to determine the proper allocation of your portfolio among the various investment vehicles. Based on your individual investment objectives, we may honor special requests regarding available mutual funds, ETFs and/or other securities to be utilized, as well as investment research and sub-advisers.

This strategy will primarily utilize ETFs, individual taxable or non-taxable bonds and/or equities and may be sub-advised by third parties selected by us as indicated in your Investment Advisory Agreement or managed utilizing investment research and portfolio models provided by third parties. A portion of the advisory fee paid by you to us may be used by us to compensate these third party providers. Your portfolio allocation will be based on your individual characteristics as determined from your Client Profile. This service may be best suited for clients wishing to have greater control over portfolio transactions, cash flow streams and/or greater visibility to the actual holdings of the portfolio.

Depending on a client's objectives, portfolios under the Master Manager investment management service may be adjusted for clients seeking current or growing income, clients desiring socially conscious considerations, and clients interested in tailoring their portfolio due to tax concerns. As applicable, the stock portion of an income portfolio may use an enhanced index strategy designed to track many

characteristics of the S&P 500 Index by utilizing high dividend yielding stocks. The bond portion of each income portfolio will focus on open and closed end bond funds offering a superior yield. The bond portion of a portfolio may be highly concentrated in high yield bonds or long-term government bonds due to their historically high yields, but the goal will be to diversify the bond portfolio while maintaining focus on the primary objective of high or growing yield.

The standard (tiered) fee schedule for this service is:

<u>Assets under Management</u>	<u>Annual Percentage</u>
\$500,000 but less than \$1,000,000	1.95%
Next \$500,000	1.90%
Next \$500,000	1.85%
Next \$1,500,000	1.80%
Next \$1,500,000	1.75%
\$5,000,000 or more	1.65%

The minimum account size is \$500,000 per registration.

d. Master Manager Managed Income

The Master Manager Managed Income investment management service utilizes an adaptive risk allocation model to manage an account for clients seeking consistent income from a diversified portfolio of income-producing assets. The strategy seeks to help clients with a desire for regular income to meet their short and long-term income needs by dividing the account into three separate investment portfolios: immediate, short-term, and long-term.

If you enroll in this strategy you may elect to designate a specific amount of assets needed to satisfy your immediate income needs. These assets will be set aside in a low-risk cash account and available for immediate, systematic withdrawals. The default amount is three months' worth of withdrawals; however, the strategy allows you to specify your desired amount. You may then designate a specific amount of assets needed to satisfy your short-term income needs. These assets will be invested in a low-risk reserve portfolio that will seek to generate returns in excess of the average money market fund with risk less than or equal to low duration investment bonds. CLS recommends one to two years worth of withdrawals; however, the strategy allows for you to specify your desired amount (including zero assets in the low-risk reserve portfolio). The remainder of your account will be set aside in a long-term portfolio invested primarily in income or interest-generating investments. The proceeds from this portfolio will be used to replenish the reserve portfolio which, in turn, is used to replenish the cash account. If the client has elected not to establish a reserve portfolio or cash account, income generated from these investments will be distributed directly to the client or reinvested.

The long-term portfolio will be invested in exchange traded funds (“ETFs”), bonds, individual securities and/or mutual funds with CLS acting as the asset allocation overlay manager. This strategy uses risk diversification, risk budgeting, relative strength and asset class risk analysis, to determine the proper allocation of your portfolio among the various investment vehicles, according to your objectives determined from your Client Profile. Assets designated for this portfolio will seek to provide long-term growth and a steady stream of income.

The standard fee schedule for this service is:

Flat Rate Annual Percentage

1.95%

The minimum account size is \$500,000 per registration.

INCOME

The Income service described below utilizes a dynamic asset allocation model to balance the goal of maximizing income while managing the risk that withdrawals and market movement will cause your portfolio to run out of money.

a. ETF Lifetime Income

The ETF Lifetime Income investment management service (“ETFLI”) utilizes a dynamic allocation model to manage a portfolio for clients seeking to optimize income distribution over a period of at least ten (10) years. ETFLI is designed as a seven (7) year program (the “LI Cycle”) with the objective of providing the potential for market appreciation while striving to preserve your original principal investment at the end of the seven (7) year period, less any withdrawals taken. If you remain in the program for the LI Cycle, you will automatically be re-enrolled in ETFLI unless you instruct us otherwise. You may terminate our services, including ETFLI, at any time; however, ETFLI is designed to be most effective for clients completing a full LI Cycle.

ETFLI seeks to balance the goal of maximizing the income distribution from a portfolio while retaining the capacity of the portfolio to produce income over your lifetime. Horizon Investments, LLC provides sub-advisory services to us under ETFLI for construction and analysis of client portfolios. The strategy seeks to replenish cash needed for client withdrawals in a manner that lowers the probability of “outliving your money” relative to many traditional approaches. If you enroll in ETFLI, you must specify the number of years you desire to withdraw funds from your account. Based on the amount of funds available, ETFLI will either suggest a sustainable withdrawal rate based on a probability of success or estimate the probability of success based on a desired withdrawal amount. Along with providing a withdrawal amount and/or probability of success, ETFLI will provide an allocation to the three distinct portfolio segments that comprise ETFLI (a short-term income portfolio, a growth portfolio and a protection portfolio). Initially, three years of client withdrawals will be allocated to a short-term income portfolio, invested primarily in short-term income and bond investments, and the remainder of the

funds will initially be allocated to the growth portfolio, targeting a risk similar to the S&P 500 and managed utilizing our adaptive risk allocation strategy. The actual amount of funds assigned to each of the three portfolios will change based on the dynamic asset allocation model. This strategy provides protection by switching to low-risk zero coupon bonds when certain down market conditions exist. Generally, the funds allocated to the growth portfolio will be invested solely in individual ETFs which provide growth opportunities.

ETFLI seeks to guard an original principal investment amount against the impact of market declines on its long-term income producing capacity through two concepts: (1) the replenishment of the short-term income portfolio, based on a dynamic process that will reduce the need to fund for required client withdrawals during a period of time when the growth portfolio and the market is performing poorly; and (2) in certain down market conditions, up to one-hundred percent (100%) of the portfolio may be invested in zero coupon bonds in order to maintain the capacity of the overall portfolio to produce the desired income.

The standard fee schedule for this service is:

Flat Rate Annual Percentage
1.80%

The minimum account size is \$250,000 per registration.

PROTECTION

The Protection service described below utilizes a dynamic asset allocation model offering protection of a portfolio's initial investment from severe market volatility.

a. ETF Principal Guard

The ETF Principal Guard investment management service utilizes a dynamic asset allocation model to create a portfolio for clients who desire some principal protection while being allowed the flexibility of being invested in ETFs. We will utilize a dynamic asset allocation model to determine what portion of the portfolio should be invested in ETFs for growth of capital and what portion of the portfolio should be "guarded" by investing in U.S. Government zero coupon bonds in order to reduce the impact of large equity market declines. The portion of the portfolio invested for growth will be managed utilizing our adaptive risk allocation investment methodology.

The standard fee schedule for this service is:

Flat Rate Annual Percentage
1.80%

The minimum account size is \$250,000 per registration.

Fees and Compensation.

For our investment management services, we charge an advisory fee. Our advisory fee is billed either in advance or in arrears, on a quarterly or annual basis, as specified in your Investment Advisory Agreement that is included with your Client Profile. Advisory fees may be deducted directly from your account, or in some circumstances, you may be billed directly for such fees. Advisory fees billed in advance are based on the market value of all your assets under management on the last trading day of each advisory fee period, unless otherwise specified. If your advisory fees are billed in advance, you may also be billed for additional monies added to your account during the advisory fee period; however, no adjustments to your advisory fee will be made for monies withdrawn during the advisory fee period. Advisory fees billed in arrears will generally be determined based on your account balance on a daily basis unless otherwise specified. Please refer to your Investment Advisory Agreement, including attached addendums and schedules, to determine the manner your advisory fees will be calculated and billed. In any partial advisory fee cycle, your advisory fee will be pro-rated based on the number of days your assets are under management for the applicable period.

The advisory fees paid to us represent fees for management of your account and are separate from any other fees and expenses charged by other parties; therefore, the advisory fees shown in this wrap fee program brochure represent only the fees paid to us and do not reflect operating expenses and other costs charged by the mutual funds, variable annuities, or other products you may be invested in, and it is important you understand that these expenses and costs are ultimately borne by you, as the shareholder. In addition, mutual funds or variable annuities may charge contingent deferred sales charges ("CDSC") on withdrawals. We are not responsible for any CDSC charges incurred through our management of your portfolio. A complete description of all fees and expenses of the securities in which you are invested are contained in the relevant prospectuses. We also advise you to carefully review your custody agreement with your custodian as there may be custodial fees and other service fees charged to you by your custodian.

You may request that related accounts be combined in order to meet fee break points and reduce the advisory fee charged. We reserve the right to waive the advisory fee for certain accounts such as employee accounts and personal accounts of solicitors who refer business to us. The standard fee schedules and minimum account sizes indicated for the investment management services identified below are **negotiable** and, as a result, clients with similar assets may have differing fee schedules and pay different fees. Clients who negotiate a flat fee schedule may or may not pay a higher fee than those who pay under a tiered schedule, depending on asset levels.

The same or similar investment advisory services may be available from other investment advisers for a lower fee. The advisory fee (which includes transaction costs) may be more or less costly than paying for the services separately, depending upon the investment advisory fees charged, the number of transactions for the account, and the level of brokerage and other fees that would be payable if the client obtained the services available under the program individually.

We enter into marketing arrangements with broker-dealer firms pursuant to which representatives of their firms (“Solicitors”) offer our services to the public. A portion of the advisory fee collected by us is shared with the Solicitors for introducing and servicing advisory accounts. Compensation received by the Solicitors may or may not be more than what the Solicitor would receive from us if you paid separately for investment advice, brokerage, and other services; therefore, the Solicitor may have a financial incentive to recommend the wrap fee programs over other programs and services.

Your investments in our wrap fee programs may also be subject to other fees and charges imposed by other third parties, such as: in the case of mutual fund investments, mutual fund investment management fees, 12b-1 distribution fees, administrative servicing fees, and contingent deferred sales charges upon redemption of previously purchased mutual funds; in the case of purchases made in connection with an individual retirement account or other qualified plan, various IRA and qualified retirement plan fees; and, in the case of all investments, clearing, custody, and other charges and service fees. Other parties may receive a portion of these third-party fees.

You are advised that several of the investment management services offered by us involve the use of **Affiliated Funds** or **Sub-Advised Funds** to implement our strategies. The use of the **Affiliated Funds** or **Sub-Advised Funds** may present a conflict of interest and is therefore disclosed in the applicable investment management service descriptions. Several of the investment management services utilize the **Affiliated Funds** or **Sub-Advised Funds** as an integral part of its strategy; however, you may at any time prohibit us from using such funds, or select a different investment management service by providing us written notice.

Under some circumstances, our affiliated broker-dealer, Northern Lights Distributors, LLC, may receive customary compensation from mutual fund companies and/or variable annuity companies, including 12b-1 fees, for performing certain administrative and/or shareholder servicing related tasks associated with our clients’ investment in such securities. In these circumstances, a conflict of interest is present since our broker-dealer affiliate may receive compensation based on the product chosen; however, we are not involved in recommending the purchase of such products, but rather provide our investment management services after the client has already purchased such products.

Our portfolio managers are paid a base salary plus a bonus based on assets under management, client retention, investment performance, and errors committed. A 401(k) program with employer matching is also available to portfolio managers.

TERMINATION OF ADVISORY AGREEMENT.

We may terminate our Investment Advisory Agreement with you at any time by providing you with written notice. Likewise, you may terminate the Investment Advisory Agreement at any time by providing us with written notice. If your Investment Advisory Agreement is terminated within five (5) business days from the date of inception, all fees paid by you in advance will be promptly refunded to you. Should your Investment Advisory Agreement be terminated at any other time, you will receive a pro-rata refund of any prepaid fees. If you are billed in arrears for our services, any outstanding

amounts owed to us for the period of time your assets were under our management shall become immediately due and payable upon termination.

As of the effective date of termination of our investment management services, we will have no obligation or authority to recommend or take any action with regard to your previously managed assets. You will bear the sole responsibility to work with your custodian for proper liquidation and/or management of your assets upon termination. **Upon termination, we advise you to immediately contact your custodian to ensure your account is allocated according to your wishes.**

Item 5 Account Requirements and Types of *Clients*

Minimum account size requirements and applicable fee schedules are disclosed for each respective investment management service described in Item 4 above. We provide investment advice to individuals, banks, thrift institutions, investment companies, pension and profit sharing plans, trusts, estates, charitable organizations, corporations, other investment advisers, broker-dealers, and other business entities.

Item 6 Portfolio Manager Selection and Evaluation

We offer investment management services for clients who wish to utilize our individualized services. Each investment management service gives us discretion to provide continuous investment advice based on your individual objectives, needs, risk tolerance, and style of management desired. We will custom tailor an investment portfolio specifically designed for you based on the style of management you select. The process begins when you fill out a confidential, in-depth "Client Profile." The Client Profile will help you to clarify your financial objectives and goals, establish your tolerance to risk, and identify your most comfortable style of management. The Client Profile is used by our firm as the primary reference for managing your portfolio. You may also indicate any special instructions or limits that you request us to follow in managing your assets.

Based on our analysis of your Client Profile, we will provide you an Investment Policy Statement ("IPS") that clarifies your specific circumstances and shows an initial asset allocation for your portfolio. The specific selections within the mutual funds, variable annuities, exchange traded funds, Folios, and/or other securities represent asset classes suited to your individual risk tolerance, goals, and management style. The specific percentages allocated to each asset class may vary due to the nature of asset performance and/or the investment management service selected. Information about each wrap fee investment strategy is described under Item 4 above.

Through our daily monitoring of relative strength and asset class risk factors, we may change your portfolio asset mix in order to help you meet your objectives. It is our intent to maintain a risk exposure commensurate with your objectives by using the various investment choices available under the investment management service selected by you.

We review a number of different criteria when selecting and reviewing our portfolio managers including: years of investment management experience, educational background, professional designations, ability to work in a team environment, compatibility with our investment management style, etc. The portfolio managers work in a team environment and are reviewed based on assets under management, client retention, investment performance, and errors committed. The portfolio managers perform daily market reviews and allocation reviews within each fund and investment management service that we administer.

The portfolio administrators run and review weekly reports to determine if new money has been added to any client account. The portfolio administrators also run and review monthly reports to detect any position drift. We monitor performance on a monthly basis for managers, investment research providers, and for our own analysis. Funds used in allocations are tracked on a daily basis. Our performance numbers are computed in accordance with GIPS® standards and verified by Ashland Partners & Company LLP on a yearly basis.

To help us provide accurate and timely management of your invested assets, we may ask that you establish a custodial account with a designated custodian, including Constellation Trust Company ("CTC"), a custodian affiliated with us. However, assets may be held at a number of qualified custodians, including a mutual fund company, a variable annuity insurance company, a broker-dealer, or an independent custodian selected by you. Your custodian maintains the underlying records for the assets held in your account. We will not serve as the custodian for your managed assets. You will be solely

responsible for paying all the fees and charges of the custodian as stated in your agreement with your custodian. In order to facilitate our management services and simplify required paperwork, we have entered into an agreement with CTC to waive some of their customary charges; however, you are under no obligation to select CTC as your custodian and you are free to select from dozens of custodians we are able to work with. At any time, you may contact your custodian directly to obtain your account balance or take immediate action regarding your account; however, according to your Investment Advisory Agreement with us, you must also provide us notice of your intentions so we do not take actions contrary to your objectives. For example, if you contact your custodian directly and instruct them to move your account to cash, you must provide us notice so we do not reallocate your account against your wishes.

Securities or monies may be added to or withdrawn from your managed assets at any time; however, in order for us to maintain accurate information regarding your account, you must provide us with written notice of any such additions or withdrawals. We are not responsible for inaccurate reporting if you fail to provide us with accurate information. We strive to maintain your account data as accurate as possible; however, we rely on accurate reporting provided to us by you and your custodian through electronic or other means. We are not responsible for inaccurate data provided by your custodian. You must promptly submit to us in writing any changes to your Client Profile, or any changes to any information you have provided to us regarding the management of your assets.

Maintaining proper records and documentation regarding your account is important to us. As a new client of ours, you will be able to access our website at www.clsinvest.com and view your account information. General information regarding how to obtain secured web access to your account is given to you after we accept your account. In addition, our customer service center is available to answer any questions regarding your account at (888) 455-4244.

As indicated in our Form ADV Part 1 on file with the SEC, as of March 15, 2011, we managed approximately \$5,365,240,000 of client assets on a discretionary basis and approximately \$4,132,583,000 of client assets on a non-discretionary basis.

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

PROXY POLICY.

We do not receive proxies for securities held in your account(s). Unless otherwise agreed in writing, it is our policy not to vote, nor give any advice how to vote, proxies for securities held in your accounts. Proxies for securities held in your account(s) will be received by you directly from the custodian of your assets, or will be handled as otherwise agreed between you and the custodian.

Proxies for the AdvisorOne Funds and Rydex Variable Trust

We serve as investment adviser to certain investment companies under the AdvisorOne Funds trust and sub-adviser to certain investment companies under the Rydex Variable Trust (each a "Fund"). Each Fund is a fund of funds, meaning these Funds pursue their investment goals by investing primarily in other investment companies that are not affiliated ("Underlying Funds"). As a fund of funds, the Funds are required by the Investment Company Act of 1940 to handle proxies received from Underlying Funds in a certain manner. In particular, it is our policy to vote all proxies received from the Underlying Funds in the same proportion that all shares of the Underlying Funds are voted, or in accordance with instructions received from Fund shareholders, pursuant to Section 12(d)(1)(F) of the Investment Company Act of 1940. Proxies received on behalf of the Funds that represent securities that are not investment companies will be voted according to our proxy voting policies. In general, we will vote in favor of routine proposals which do not change the structure, bylaws, or operations of a company to the detriment of the shareholders, and will vote against proposals that clearly have the effect of restricting the ability of shareholders to realize the full potential value of their investment.

All proxies received from the Funds will be reviewed with our Chief Compliance Officer or appropriate legal counsel to ensure proper voting. After properly voted, the proxy materials are placed in a file maintained by the Chief Compliance Officer for future reference.

ERROR COMMITTEE.

We have established an error committee led by our Chief Compliance Officer that generally meets on a weekly basis to review reported errors. Possible errors may be identified by us, our clients, financial representatives and others. The error committee will review the facts surrounding each circumstance to determine whether an error has occurred. If the error committee determines an error has occurred, it will consider (i) the nature and cause of the error, (ii) whether you have been disadvantaged by the error, and (iii) suitability of the allocations resulting from an error. Unsuitable trades by us will always be resolved in your favor. If necessary, we will perform calculations to determine whether you have experienced a loss resulting from our error and we will offset any losses against gains resulting from the same error. Generally, we will credit your next advisory fee invoice for the amount of the loss determined by the error committee to be our responsibility. In cases where we determine it is not appropriate to credit advisory fees, we may issue a check to the your custodian for the amount of the loss to be deposited into your account, or under some circumstances a check may be sent directly to you. We will notify you of errors caused by us that resulted in a loss of more than \$10. Errors less than \$10 will be corrected in your account but no notification will be sent to you. Our policy and practice is to monitor and reconcile all trading activity, identify and resolve any trade errors promptly, document each trade error with appropriate supervisory approval, and maintain a trade error file.

PRIVACY POLICY.

We have a privacy policy designed to protect and safeguard your confidential information. A copy of our privacy policy is provided on an annual basis to all of our clients.

BUSINESS CONTINUITY PLAN.

We, along with our parent company, have a business continuity plan which provides a course of action for the assessment of a significant business disruption and for the continuation of our business following such an event. The business continuity plan consists of policies and procedures outlining the responsibilities of key personnel in the event of a significant business disruption.

NOTICE TO CLIENTS.

You should know that it is impossible to predict the future and investing in securities involves risk of loss that you should be prepared to bear. There is no assurance that we will attain your objectives or that any investment recommendation will be profitable.

Item 7 Client Information Provided to Portfolio Managers

A designated portfolio manager or portfolio administrator and a new account specialist review information submitted by each new prospective client prior to initial trading for the appropriateness and suitability of our recommendations. At least annually, you are asked to meet with your financial representative. Together, you and your representative determine whether a change in your objectives warrants a change in the criteria used to manage your assets. At least annually, we send you your confidential client information in writing that describes your current personal and investment information. We use this information as the primary reference for managing your account. If the information is current, no further action is required. If any information has changed, you are instructed to promptly advise us of any changes. This information is communicated to our portfolio managers who use it to properly manage your account in accordance with your objectives.

Item 8 Client Contact with Portfolio Managers

We do not place restrictions on your ability to communicate with our portfolio managers.

Item 9 Additional Information

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of us or the integrity of our management and certain actions are presumed by the SEC to be material. This item discusses a regulatory action against Michael Miola, an indirect owner and Manager of CLS. While associated with a previous entity, a regulatory action was initiated on January 23, 2002 by the National Association of Securities Dealers, Inc. ("NASD") against Michael Miola primarily involving the misdirected review and approval of advertising materials. Mr. Miola was fined \$25,000, which included disgorgement of \$4,565.43, and was suspended from association with any NASD member in any capacity for 30 days. The fine was due and payable prior to re-association with any NASD member following the suspension or prior to any request for relief from any statutory disqualification, whichever was earlier. The suspension was effective from March 4, 2002 through the close of business on April 2, 2002. Mr. Miola currently serves on the Board of Managers of CLS along with two other Managers; however, he is not involved in the day-to-day operation of CLS, the managing of client accounts, the review or approval of advertising or sales literature, or in making investment recommendations.

Other Financial Industry Activities and Affiliations.

Some of our executive officers perform services for other companies affiliated with us. CLS is a subsidiary of NorthStar Financial Services Group, LLC ("NorthStar"). NorthStar also has the following subsidiaries: Northern Lights Distributors, LLC, Orion Advisor Services, LLC, Gemini Fund Services, LLC, Gemcom, LLC and Northern Lights Compliance Services, LLC. In addition, NorthStar is affiliated with Constellation Trust Company, a Nebraska chartered trust company.

BROKER-DEALER

Related Persons: Northern Lights Distributors, LLC ("NLD")

Relationships and Arrangements with Related Persons:

Our principal executive officers and other related employees are officers, managers, and/or registered representatives of NLD, a registered broker-dealer and FINRA member. These individuals will be able to effect limited securities transactions for advisory clients, and NLD may receive separate and customary compensation for this activity and may pay a portion of the compensation to these individuals. In some circumstances, NLD may receive customary compensation from mutual fund companies and/or variable annuity companies, including 12b-1 fees, for performing certain administrative and/or shareholder servicing related tasks associated with our clients' investments in such securities. NLD's securities business is primarily limited to mutual fund shares and variable insurance contracts. NLD also acts as underwriter to various investment companies including the AdvisorOne Funds. Both CLS and NLD are wholly owned subsidiaries of NorthStar Financial Services Group, LLC.

INVESTMENT COMPANIES

Related Persons: AdvisorOne Funds, The Milestone Funds & Rydex Variable Trust
Relationships and Arrangements with Related Persons:

We serve as the investment adviser to the Amerigo Fund, Clermont Fund, Select Allocation Fund, Descartes Fund, Liahona Fund, Reservoir Fund, Enhanced Income Fund, Flexible Income Fund, Select Appreciation Fund and Shelter Fund which are part of the AdvisorOne Funds Trust and we serve as interim investment adviser to the Treasury Obligations Portfolio which is part of The Milestone Funds trust (collectively these funds are referred to as "**Affiliated Funds**"). We receive a management fee from the **Affiliated Funds** we advise. A specified amount of your assets may be invested in **Affiliated Funds** as an integral part of some of our investment management services. At any time, you have the right to prohibit us from investing any of your managed assets in **Affiliated Funds**. We receive a management fee calculated at the annual rate of 1.00% from each of the **Affiliated Funds**, except the annual rate is 0.60% from the Reservoir Fund, 0.90% from the Enhanced Income Fund, 0.65% from the Flexible Income Fund and 0.10% from the Treasury Obligations Portfolio (subject to shareholder approval). We also serve as sub-adviser to the CLS AdvisorOne Funds (the Amerigo Fund, Clermont Fund and Select Allocation Fund) each a series of the Rydex Variable Trust (the "**Sub-Advised Funds**"). We receive an annual sub-advisory fee of 40 basis points (0.40%) for providing sub-advisory services to the **Sub-Advised Funds**. In addition, our affiliated broker-dealer, NLD, may receive a portion of any shareholder servicing and/or 12b-1 fees paid by the **Affiliated Funds** or the **Sub-Advised Funds**. Please consult the AdvisorOne Funds prospectus for additional information about the **Affiliated Funds** and the Rydex Variable Trust prospectus for additional information about the **Sub-Advised Funds**.

Related Persons: Advanced Series Trust & the Saratoga Advantage Trust

Relationships and Arrangements with Related Persons:

We serve as the sub-adviser to two portfolios in the Advanced Series Trust, the AST CLS Moderate Asset Allocation Portfolio and the AST CLS Growth Asset Allocation Portfolio. Under this arrangement, we serve as sub-adviser to the co-managers of these portfolios, Prudential Investments, LLC and AST Investment Services, Inc. For providing sub-advisory services, we receive a fee that is based on the combined assets in both portfolios ranging from 10 to 20 basis points (0.10% to 0.20%).

We also serve as the sub-advisor to the U.S. Government Money Market Portfolio of The Saratoga Advantage Trust. Under this arrangement we serve as sub-adviser to Saratoga Capital Management, LLC, the manager of The Saratoga Advantage Trust. For providing sub-advisory services, we receive a fee that is based on the net assets managed ranging from 5 to 10 basis points (0.05% to 0.10%), reduced in the same percentage as the manager when the manager reduces its fees, but subject to a \$10,000 annual minimum.

TRUST COMPANY

Related Persons: Constellation Trust Company ("CTC")

Relationships and Arrangements with Related Persons:

CTC is a Nebraska chartered trust company and an affiliate of ours. Some of our executive officers also serve as officers and directors of CTC. CTC serves as custodian for many of our clients and has developed a joint application with us to facilitate the client application process. CTC's custodial services facilitate clients who desire a third party investment adviser such as us to manage their account(s). We may recommend CTC to our clients. CTC has established electronic interfaces and capabilities necessary to maintain and aggregate custodial records and reporting for clients invested across various investment platforms. We have entered into an arrangement with CTC to waive the annual custodial fee for our clients. All other custodial fees and charges of CTC are set forth in the CTC custodial agreement. Trades for client accounts custodied at CTC are processed via the National Securities Clearing Corporation through arrangements with third parties including Matrix Settlement and Clearance Services LLC ("Matrix"), TD Ameritrade, Inc., and Rydex Distributors, Inc. Some of the mutual funds held by our clients with assets custodied at CTC may pay shareholder servicing and/or 12b-1 fees to CTC, Matrix, and/or our affiliated broker/dealer, Northern Lights Distributors, LLC, for distribution and/or shareholder servicing related assistance associated with making a client's investments in such funds.

CODE OF ETHICS.

We have adopted a joint code of ethics along with our parent holding company, NorthStar Financial Services Group, LLC, and Northern Lights Distributors, LLC, the distributor for the **Affiliated Funds** (the "Code") in compliance with Rule 17j-1 under the Investment Company Act of 1940 and with Rule 204A-1 of the Investment Advisers Act of 1940. The Code establishes rules of conduct for all of our employees and is designed to, among other things, govern personal securities trading activities in the accounts of our employees. The Code contains general ethical principles and personal securities reporting provisions for our employees. In summary, the Code prohibits our employees from taking inappropriate advantage of their positions and the access to information concerning the investments or our investment intentions for its clients, or our ability to influence such investment intentions, for personal gain or in a manner detrimental to the interests of our clients. Rule 17j-1 and Rule 204A-1 make it unlawful for our employees to engage in conduct which is deceitful, fraudulent, or manipulative, or which involves false or misleading statements, in connection with the purchase or sale of securities. The Code acknowledges the general principles that us and/or our employees: (1) owe a fiduciary obligation to our clients; (2) have the duty at all times to place the interests of our clients first; (3) must conduct all personal securities transactions in such a manner as to avoid any actual or potential conflict of interest or abuse of an individual's position of trust and responsibility; (4) should not take inappropriate advantage of their positions in relation to client accounts; (5) must comply with the federal securities laws; and (6) must safeguard nonpublic information. A copy of the Code is available upon request.

Participation Or Interest In Client Transactions.

Our executive officers and other employees, as licensed registered representatives of a broker-dealer, are able to effect securities transactions for separate and typical compensation. Those licensed

individuals may recommend their broker-dealer to our advisory clients; however, clients are under no obligation to effect transactions through any recommended broker or dealer. We advise you, the client, that you are not under any obligation to engage these individuals when considering implementation of any advisory recommendations made by us. Where possible, we will recommend no-load mutual funds or load mutual funds available at Net Asset Value ("NAV").

We may recommend **Affiliated Funds** and **Sub-Advised Funds** to you. You are advised of the possible use of **Affiliated Funds** and/or **Sub-Advised Funds** in your agreement with us and in the applicable investment management service descriptions, and at any time, have the right to prohibit us from investing any of your managed assets in **Affiliated Funds** or **Sub-Advised Funds**.

We and our employees may buy or sell securities identical to those recommended to our clients. It is our express policy that any person employed by us is prohibited from profiting at the expense of our clients and from competing with our clients.

Procedures and Disclosures.

The Code and other procedures adopted by us contain the following provisions to handle conflicts of interest:

- 1) We maintain records of all securities holdings for our clients, ourselves, our employees, and affiliated parties. These holdings are reviewed on a regular basis by our compliance personnel.
- 2) No individual shall cause or attempt to cause any of our clients to purchase, sell, or hold any interest in a security in a manner calculated to create any personal benefit or benefit any employee account. None of our officers or employees shall buy or sell securities for their personal portfolio(s) where their decision is substantially derived, in whole or in part, by reason of his or her employment unless the information is also available to the investing public upon reasonable inquiry.
- 3) Each of our employees submits quarterly reports and acknowledges the firm's policies and procedures with respect to the Code on an annual basis.
- 4) Each employee's personal trading accounts are reviewed on a regular basis by compliance personnel.
- 5) Any employee not in observance of the above may be subject to disciplinary action and possible termination.
- 6) Clients are advised in their agreements with us and in the applicable investment service descriptions of the possible use of **Affiliated Funds** and/or **Sub-Advised Funds** in which we have a financial interest. At any time, Clients may instruct us not to use **Affiliated Funds** or **Sub-Advised Funds** in their accounts.

Review of Accounts.

A designated portfolio manager or portfolio administrator and a new account specialist review information submitted by each new prospective client prior to initial trading for the appropriateness and suitability of our recommendations. The Chief Investment Officer and the portfolio managers monitor the account positions for asset performance and analyze market risk factors on a daily basis. The relative strength, momentum, and price movement of each asset class is reviewed and client allocations are weighted to best meet individual risk tolerances and objectives based on the client's selected investment management service. During the daily analysis of economic indicators, should it determine major allocation movements may be necessary, our Investment Committee will be consulted to review recommendations for approval. The Chief Investment Officer is responsible for monitoring the investment company allocations on a daily basis.

At least annually, individual clients are asked to meet with their financial representative and review their personal investment information on file as discussed under Item 7 above.

For all investment services, factors that may affect portfolio weightings include changes in relative strength of the assets, economic changes, changes in client asset levels, or changes indicated by trend analysis as determined by the Chief Investment Officer and portfolio managers.

Account review is facilitated through an arrangement with Orion Advisor Services, LLC ("Orion"), one of our affiliates. We have engaged Orion to provide a "back office" system which enables us to gather and aggregate client data from multiple platforms and providers, maintain portfolio models, review models and accounts for variances, analyze account performance, generate quarterly statements and other reports, facilitate the trading of client accounts and make information available online via the internet in a secure manner to clients, their financial representatives, and their supervising broker-dealers or soliciting investment advisory firms.

Client Referrals and Other Compensation.

Certain mutual funds and variable annuities in which you may be invested may pay marketing fees, service fees, including shareholder service fees, 12b-1 fees, or bonus commissions to us or Northern Lights Distributors, LLC, our affiliated broker-dealer or to Constellation Trust Company, our affiliated trust company, for marketing assistance or for the performance of certain administrative tasks associated with making an investment in such fund or annuity. Any such fees received by us will not be credited against the fees otherwise payable by you to us. Our employees or associated persons may also be invited to attend seminars and meetings with the costs associated with such meetings borne by a sponsoring brokerage firm or other party extending the invitation.

Some of our employees, who are also registered representatives of a broker-dealer, may receive, from time to time, 12b-1 distribution fees from mutual funds in which they have placed clients' funds.

We enter into marketing arrangements with broker-dealer firms pursuant to which representatives of their firms ("Solicitors") offer our services to the public. These Solicitors refer us the majority of our clients. Through these arrangements, we pay a cash referral fee to the Solicitor and/or their firm based

upon a percentage of our advisory fee. The amount of the referral fee may vary depending on the investment management service selected and the custodial platform utilized.

Because accounts maintained with certain custodians are more efficient for us to manage, we may offer increased referral fee payouts for client assets maintained with these custodians, including client assets maintained with Constellation Trust Company, one of our affiliates. Under each of the investment services offered by us, **the amount of the referral fee we pay to the Solicitor may be up to one hundred percent (100%) of the amount of the advisory fee we receive from you.** In connection with these arrangements, we will comply with Rule 206(4)-3 under the Advisers Act. The referral fee is paid pursuant to a written agreement, which is retained by both your representative (Solicitor) and us. This information is disclosed to you prior to or at the time of entering into an investment advisory agreement with us. We also may offer these firms and Solicitors reimbursement of certain expenses approved by us.

We may pay a portion of the advisory fee to other affiliated or non-affiliated parties who assist with certain administrative tasks associated with the management of your account. Such tasks may include account maintenance, data reconciliation, statement printing, investment research, sub-advisory services, or other administrative tasks.

We may reimburse unaffiliated third parties for the costs of attending training seminars for the purpose of learning about our advisory business. We also may pay for costs associated with client seminars done for the purpose of acquiring or retaining clients for us.

We may pay territorial/regional wholesaler compensation based in whole or in part on revenues generated from a wholesaler's territory or region. Such compensation is separately negotiated and is not based on individual clients.

Our parent company has entered into a promissory note with Brad Lankford, the principal owner of Niles Lankford Group, Inc. ("NLG"), a third party administration firm. Under the terms of the promissory note, due February 2013, certain amounts may be forgiven based on new business maintained with us after February 15, 2008, through NLG or other entities affiliated with Brad Lankford.

Financial Information.

A balance sheet for CLS as of December 31, 2010 is attached.

CLS Investments, LLC

(A Wholly Owned Subsidiary of
NorthStar Financial Services Group, LLC)

Balance Sheet
as of December 31, 2010, and
Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

To the Board of Managers
CLS Investments, LLC
Omaha, Nebraska

We have audited the accompanying balance sheet of CLS Investments, LLC (a wholly owned subsidiary of NorthStar Financial Services Group, LLC) (the "Company") as of December 31, 2010. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such balance sheet presents fairly, in all material respects, the financial position of the Company as of December 31, 2010 in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

March 28, 2011

CLS INVESTMENTS, LLC

(A Wholly Owned Subsidiary of NorthStar Financial Services Group, LLC)

BALANCE SHEET

AS OF DECEMBER 31, 2010

ASSETS

ASSETS:

Cash	\$ 109,812
Receivables	3,483,192
Due from affiliate	1,953,587
Prepaid advisory fees expense	232,403
Fixed assets — net of accumulated depreciation of \$1,782,669	148,687
Goodwill	794,395
Other assets	<u>239,778</u>

TOTAL \$6,961,854

LIABILITIES AND MEMBER'S EQUITY

LIABILITIES:

Accounts payable and accrued expenses	\$2,540,557
Advisory fees payable	1,732,743
Unearned advisory fee revenue	348,159
Due to affiliate	<u>7,872</u>

Total liabilities 4,629,331

COMMITMENTS AND CONTINGENCIES

MEMBER'S EQUITY 2,332,523

TOTAL \$6,961,854

See notes to balance sheet.

CLS INVESTMENTS, LLC
(A Wholly Owned Subsidiary of NorthStar Financial Services Group, LLC)

NOTES TO BALANCE SHEET
AS OF DECEMBER 31, 2010

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CLS Investments, LLC (the “Company”) is an Omaha, Nebraska based registered investment advisor providing investment advice and portfolio management services to individuals, corporations, and retirement plans through a network of independent representatives. The Company derives substantially all of its revenue from fee-based asset management support arrangements for clients of its solicitors. The Company’s clients are located throughout the United States.

The Company is a wholly owned subsidiary of NorthStar Financial Services Group, LLC (“NorthStar” or “Parent”).

Basis of Accounting — The Company maintains its accounting records and prepares its financial statements in accordance with accounting principles generally accepted in the United States of America.

Estimates — The preparation of the balance sheet in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the balance sheet. Actual results could differ from those estimates.

Receivables — The Company evaluates the collectibility of receivables at the end of the fiscal year and establishes an allowance for bad debts for all accounts or portions thereof considered uncollectible. No allowance was recorded against receivables at December 31, 2010.

Fixed Assets — Fixed assets are recorded at cost. Depreciation and amortization are computed using straight-line and accelerated methods over the following ranges of estimated useful lives:

Computer equipment	3–7 years
Telephone equipment	5 years
Furniture and fixtures	5–7 years
Leasehold improvements	7–10 years
Equipment under capital leases	5–10 years

Goodwill — In accordance with FASB ASC 350-20, *Goodwill*, goodwill is assessed for impairment at least annually. Any excess of carrying value over fair value is recognized as an impairment loss. During this assessment, management relies on a number of factors, including operating results, business plans, and anticipated future cash flows.

Income Taxes — The Company, as a wholly owned subsidiary of NorthStar, is a disregarded entity for income tax purposes under the provisions of the Internal Revenue Code. Accordingly, income from the Company is reported and respective income taxes are paid by the members of the Parent and, as a result, no provision for federal income taxes is provided as it relates to the taxable income of the Company.

Also, no provision has been made for any amounts which may be advanced or paid as draws to the members of the Parent to assist them in paying taxes on the Company’s income.

Revenue Recognition — Fee income from investment advisory and asset management services is recognized ratably on a straight-line basis over the contract period. Customers are billed an advisory fee computed as a percentage of assets under management. Advisory fees billed in advance are recorded as unearned revenue and are amortized ratably on a straight-line basis into income over the remaining unexpired contract term.

Solicitor expense is for services performed by third parties related to the investment advisory services performed by the Company and is recognized ratably over the same period as the related revenues. Advisory fee expense related to revenues not yet earned is deferred and amortized ratably on a straight-line method over the unexpired term of the related contract for advisory services.

Advertising — The Company expenses its advertising costs as incurred the first time the advertising takes place.

2. FIXED ASSETS

Fixed assets at December 31, 2010, consisted of the following:

Computer equipment	\$ 1,401,564
Telephone equipment	14,949
Furniture and fixtures	320,179
Leasehold improvements	<u>194,664</u>
	1,931,356
Less accumulated depreciation and amortization	<u>(1,782,669)</u>
	<u>\$ 148,687</u>

3. GOODWILL

Goodwill was tested for impairment at the reporting unit level and must be tested annually thereafter utilizing a two-step methodology. The initial step requires the Company to determine the fair value of each reporting unit. If the fair value exceeds the carrying value, no impairment is to be recognized. However, if the carrying value of the reporting unit exceeds its fair value, the goodwill of this unit may be impaired. The amount of the impairment, if any, is then measured in the second step.

In connection with NorthStar's purchase of the Company, effective January 1, 2003, all previously existing goodwill of the acquired companies was eliminated. At that time, NorthStar determined the carrying value of its assets and liabilities was less than the fair value and the final allocation of the purchase price resulted in the Company recording goodwill in the amount of \$794,395.

The Company performed its annual impairment testing of goodwill as of December 31, 2010.

4. COMMITMENTS AND CONTINGENCIES

The Company entered into an Investment Research Agreement and an Asset Purchase Agreement, each dated December 16, 2003, with Schield Management Company ("Schield"). Beginning with the quarterly period ended March 31, 2004, and ending with the quarterly period ending December 31, 2013, the terms of the Asset Purchase Agreement provides for forty quarterly payments of \$125,000 to be adjusted upward or downward based on the aggregate value of assets under Company management

that transferred from Schield. The terms of the Investment Research Agreement provide for payments based on the value of assets under Company management in designated programs. In August 2006, Schield assigned the Investment Research Agreement to Capital Cities Asset Management, Inc. (“CCAM”) and the Company now pays both Schield and CCAM their respective portions.

The Company, along with NorthStar, Orion Advisor Services, LLC (“Orion”) (a wholly owned subsidiary of NorthStar), Gemini Fund Services, LLC (“Gemini”) (a wholly owned subsidiary of NorthStar), GemCom, LLC (a wholly owned subsidiary of NorthStar), and Northern Lights Compliance Services, LLC (“NLC”) (a wholly owned subsidiary of NorthStar) are named borrowers on a \$2,000,000 line of credit, which is collateralized by assets of all the companies. There was not an outstanding balance at December 31, 2010.

5. RELATED PARTY TRANSACTIONS

NorthStar provides management services for a number of subsidiaries. NorthStar allocates direct expenses to the subsidiaries, and then allocates any remaining expenses to each subsidiary based primarily on the number of employees of each. Additionally, in the ordinary course of business, the Company may advance funds to NorthStar. The Company had a due from affiliate of \$1,953,587 at December 31, 2010, related to NorthStar.

The Parent’s two members own 99.9% of the shares outstanding of Constellation Trust Company (“Constellation”). The Company entered into a service agreement with Constellation, whereby Constellation will provide custody-related services for the Company’s clients. The Company had an accrued liability in the amount of \$420,714 to Constellation at December 31, 2010, included in the accompanying balance sheet under the caption of accounts payable and accrued expenses.

The Company pays Northern Lights Distributors, LLC (“NLD”) (a wholly owned subsidiary of NorthStar) for service fees. The Company provides investment advisor services for certain accounts for which NLD receives marketing and shareholder servicing fees. The Company had a payable to NLD of \$7,872 at December 31, 2010, included in due to affiliate.

Transactions with related parties are not necessarily indicative of revenues and expenses which would have occurred had the parties not been related.

6. EMPLOYEE BENEFIT PLANS

NorthStar sponsors a 401(k) defined contribution plan to assist the Company’s eligible employees in providing for retirement or other future financial needs. Participants may contribute up to 75% of their salary, subject to certain limitations. NorthStar contributes an amount determined annually by the Board of Managers.

7. SUBSEQUENT EVENTS

The subsequent events for the Company have been evaluated by management through the date the balance sheet was available to be issued. It was determined that there were no subsequent events to recognize or disclose in the balance sheet presented herein.

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