

**Form ADV, Part II, Schedule H
Investment Adviser Wrap Program Brochure**

**CLS Investments, LLC
4020 South 147th Street
Omaha, NE 68137
888-455-4244**

Master Manager

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THIS BROCHURE PROVIDES CLIENTS WITH INFORMATION ABOUT CLS INVESTMENTS, LLC AND THE MASTER MANAGER INVESTMENT MANAGEMENT SERVICE THAT SHOULD BE CONSIDERED ALONG WITH ADV PARTS I AND II BEFORE BECOMING A CLIENT OF MASTER MANAGER. THIS INFORMATION HAS NOT BEEN APPROVED OR VERIFIED BY ANY GOVERNMENTAL AUTHORITY.

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About CLS.

CLS Investments, LLC ("CLS") provides 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. The purpose of this Schedule H Brochure is to describe the wrap fee program, sponsored by CLS, called "Master Manager" pursuant to which investment advice and costs of trade executions are provided to clients for an all-inclusive wrap fee. The wrap fee program is only available on select platforms as indicated in CLS's current marketing materials. The Master Manager wrap fee program is typically only offered for accounts larger than \$500,000. Additional details regarding CLS's business may be obtained by consulting CLS's form ADV Part II available on-line at www.clsinvest.com or by calling (888) 455-4244.

Throughout this Schedule H Brochure, "we," "us" or "our" refers to CLS and "you" or "your" refers to the client or prospective client.

CLS is also known as CLS Investment Firm, LLC.

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 wish us to follow in managing your assets.

Based on our analysis of your Client Profile, we will provide to 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.

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.

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 CLS. However, assets may be held at a number of qualified custodians, including a mutual fund, a variable annuity insurance company, 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 the 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. You may, at any time, 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 CLS 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 accurate reporting if you fail to provide us accurate information. We strive to maintain your account data as accurate as possible; however, we rely on accurate reporting provided to us by 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 CLS, you will be able to access our web site at www.clsinvest.com or www.clsretire.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.

Fees.

For our investment management services, we charge an advisory fee based on a percentage of the market value of all your assets under management in your portfolio on the last trading day of each advisory fee period. Your advisory fees will be charged and billed in advance, either quarterly or annually, as specified in your investment advisory agreement. You will also be billed for additional monies added to your account during the advisory fee period; however, no adjustments will be made to your bill for monies withdrawn. In any partial advisory fee cycle, the advisory fee will be pro-rated based on the number of days the assets are under management during the particular advisory fee 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 ADV 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 or for any transaction costs incurred while managing your assets. 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, 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 CLS 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 CLS if the client paid separately for investment advice, brokerage and other services; therefore, the Solicitor may have a financial incentive to recommend the wrap fee program over other programs and services.

Your investments in the Master Manager investment service 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 transaction charges and service fees. Other parties may receive a portion of these third-party fees.

Master Manager.

The Master Manager investment management service is a strategy in which you will be invested in exchange traded funds ("ETFs"), bonds, individual securities and/or mutual funds with CLS acting as the asset allocation overlay manager. The overall portfolio will utilize an adaptive risk allocation strategy, which uses risk budgeting, fundamental, statistical and relative strength 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 CLS as indicated in your Investment Advisory Agreement or managed utilizing investment research and portfolio models provided by third parties; therefore, 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. The Master Manager investment management service is considered a "wrap fee program" where the trading costs are not billed separately to the client.

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. This service was previously named "Separate Account Strategy."

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.

Methods of Analysis and Investment Strategies.

Assets in our Master Manager investment management service are managed, at least in part, utilizing an adaptive risk allocation investment methodology. 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. CLS uses 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 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 the 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 the diversified equity portfolio. The diversified equity portfolio or "equity baseline" is determined by CLS 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 are assigned a stock-to-bond ratio, it 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. CLS typically places 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.

Our asset allocation strategies seek to be invested in the asset classes that are exhibiting the best characteristics for sustained market leadership and overweight or underweight asset classes in accordance with your individual objectives, risk tolerance, and the investment service selected by you.

Termination.

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 (5) five business days from the date of inception, all fees paid by you in advance will be refunded to you promptly. 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.

Education and Business Standards.

We believe that providing investment advice is a very complex and specialized field and therefore we expect those individuals who determine or give investment advice for us to meet certain minimum educational requirements. We require our investment committee members to have earned a college degree and have had previous experience in securities analysis.

Officers and Investment Committee.

CLS has an investment committee comprised of CLS portfolio managers and other management of CLS as well as individuals outside of CLS. The investment committee is responsible for the prudent management of CLS assets. The investment committee meets on a quarterly basis to discuss, in general terms, CLS's risk management, asset allocation, investment strategy, and performance. The members of the investment committee are identified below. The investment committee may also invite others to serve as advisors or consultants to the committee.

W. PATRICK CLARKE

Year of Birth: 1945

Formal Education after high school: Mr. Clarke received a Bachelor of Science degree from Brigham Young University.

Business Background for the preceding five years: Co-owner of NorthStar Financial Services Group, LLC (since 1/2003); Manager and Investment Committee member of CLS (since 4/2003); Manager of: Gemini Fund Services, LLC, Orion Advisor Services, LLC, and Northern Lights Distributors, LLC ("NLD"), and each of their respective predecessors (since 2/2003); President of AdvisorOne Funds (since 5/2003); Manager of Forum Financial Consultants, LLC (since 3/2004); Manager of Gemcom, LLC and Northern Lights Compliance Services, LLC (since 7/2004); Director of Constellation Trust Company (since 12/2004); and Registered Principal with NLD and its predecessor (since 2/2003). Since 1972, Mr. Clarke has been associated with the finance and investment field and in 1989 he founded CLS's predecessor, and has been the guiding force behind its growth.

TODD CLARKE

Year of Birth: 1969

Formal Education after high school: Mr. Clarke graduated from Brigham Young University in 1992 with a Bachelor of Science degree in Business Management.

Business Background for the preceding five years: President and Manager of CLS (since 6/2005) and Investment Committee Chairman and member (since 1/2009); Registered Representative of Northern Lights Distributors, LLC and its predecessor (since 11/2003). Mr. Clarke's recent past experience includes serving

as Executive Vice President of Sales for CLS and its predecessor and for NorthStar Financial Services Group, LLC (from 2/2003 to 2/2006).

STEPHEN A. DONAHOE, CFA

Year of Birth: 1963

Formal Education after high school: Mr. Donahoe received his Bachelor of Science in Business Administration with a major in accounting from the University of Nebraska at Omaha in 1994. Mr. Donahoe earned the Chartered Financial Analyst Designation ("CFA") from the CFA Institute (formerly the Association for Investment Management and Research).

Business Background for the preceding five years: Senior Portfolio Manager and Investment Committee member with CLS (since 3/2008). Prior to joining CLS, Mr. Donahoe served as a Portfolio Manager for Wells Fargo Bank Private Asset Management (from 2001 to 2008).

DENNIS R. GUENTHER, CFA

Year of Birth: 1973

Formal Education after high school: Mr. Guenther received his Bachelor of Science degree in Finance from Wayne State College. In 2006, Mr. Guenther earned the Chartered Financial Analyst Designation ("CFA") from the CFA Institute (formerly the Association for Investment Management and Research).

Business Background for the preceding five years: Senior Portfolio Manager and Investment Committee member with CLS (since 5/2004) and Registered Representative of Northern Lights Distributors, LLC and its predecessor (since 11/2003). Mr. Guenther's recent past experience includes serving as Financial Analyst of CLS (from 10/2002 to 5/2004).

ROBERT M. JERGOVIC, MBA, CFA

Year of Birth: 1954

Formal Education after high school: Mr. Jergovic received a Bachelor of Science degree in Business Administration from the University of Nebraska at Lincoln and then received a Master of Business Administration in Finance and Banking from the University of Nebraska Graduate College. In 1981 Mr. Jergovic earned the Chartered Financial Analyst Designation ("CFA") from the Association for Investment Management and Research.

Business Background for the preceding five years: Chief Investment Officer and Investment Committee member of CLS and its predecessor (since 3/2002); Chairman of the CLS Investment Committee (from 3/2002 to 1/2009); and Registered Representative of Northern Lights Distributors, LLC and its predecessor (since 11/2003).

SCOTT R. KUBIE, MBA, CFA

Year of Birth: 1967

Formal Education after high school: Mr. Kubie received his Bachelor of Arts degree in Economics from Trinity University and attained his Master of Arts degree in Business Administration from the University of Nebraska

at Omaha. In 1999, Mr. Kubie earned the Chartered Financial Analyst Designation ("CFA") from the Association for Investment Management and Research.

Business Background for the preceding five years: Executive Vice President and Chief Strategist (since 6/2005); Director of Research for CLS and its predecessor (since 3/2002); Portfolio Manager and Investment Committee member with CLS and its predecessor (since 3/2001); Registered Representative of Northern Lights Distributors, LLC and its predecessor (since 11/2003) and Adjunct Professor, University of Nebraska Omaha (since 1/2006). Mr. Kubie's recent past experience includes serving as President and Manager of CLS and its predecessor (from 2/2003 to 6/2005).

DOUG MCCASH, JD

Year of Birth: 1970

Formal Education after high school: Mr. McCash graduated from The University of Arkansas in 1995 with Bachelor of Arts degrees in International Economics & Spanish and earned his Juris Doctor degree from the University of Arkansas – Little Rock in 2002. Mr. McCash received a Master of Laws from the University of Missouri- Kansas City in 2003.

Business Background for the preceding five years: Chief Compliance Officer for CLS (since 7/2008); Associate General Counsel for NorthStar Financial Services Group, LLC (since 6/2006). Mr. McCash's recent past experience includes serving as associate attorney at Doster, Mickes, James, Ullom, Benson & Guest, LLC (from 7/2005 to 6/2006) and as associate attorney at Fitzgerald, Schorr, Barmettler & Brennan, P.C., L.L.O. (from 2/2003 to 7/2005).

BRIAN NIELSEN, JD

Year of Birth: 1972

Formal Education after high school: Mr. Nielsen graduated from Brigham Young University in 1997 with a Bachelor of Science degree in Accounting and earned his Juris Doctor degree from the University of Nebraska College of Law in 2001.

Business Background for the preceding five years: General Counsel and Secretary of CLS and its predecessor (since September 2001) and Investment Committee member (since 1/2009); General Counsel and Secretary for NorthStar Financial Services Group, LLC, Orion Advisor Services, LLC (and its predecessor) and Northern Lights Distributors, LLC (and its predecessor) (since 1/2003); Secretary and Chief Legal Officer of the AdvisorOne Funds (since 2/2003); President, Manager and Principal of Northern Lights Distributors, LLC (since 12/2005); Secretary and General Counsel for Constellation Trust Company (since 11/2004); Assistant Secretary for Gemini Fund Services, LLC and its predecessor (since 2/2003); Manager and Assistant Secretary for Northern Lights Compliance Services, LLC; and Assistant Secretary for Gemcom, LLC (since 7/2004). Mr. Nielsen's recent past experience includes serving as Chief Compliance Officer for CLS (from 2/2005 to 7/2008).

JENNIFER J. SCHENKELBERG, MBA, CFA

Year of Birth: 1974

Formal Education after high school: Ms. Schenkelberg graduated from Kansas State University in 1997 with a Bachelor of Science degree in Business Administration with an emphasis in Accounting and Finance. In 2002

Ms. Schenkelberg earned the Chartered Financial Analyst Designation ("CFA") from the Association for Investment Management and Research. In 2006, Ms. Schenkelberg attained her Master of Business Administration from Creighton University.

Business Background for the preceding five years: Senior Portfolio Manager and Investment Committee member with CLS (since 12/2004). Prior to joining CLS, Ms. Schenkelberg served as Senior Financial Analyst for First National Bank of Omaha Wealth Management Group (from 1998 to 2004).

BRIAN BEAULIEU

Year of Birth: 1956

Formal Education after high school: Mr. Beaulieu graduated from Southern New Hampshire University.

Business Background for the preceding five years: Mr. Beaulieu sits on the Investment Committee as non-interested member (since 1/2009). Mr. Beaulieu currently serves as Executive Director of Institute for Trend Research (since 1987).

CRAIG L. ISRAELSEN, PH.D.

Year of Birth: 1959

Formal Education after high school: Mr. Israelsen received a Bachelor of Science degree from Utah State University and then received a Masters of Science degree in Agricultural Economics from Utah State University. In 1990, Mr. Israelsen was awarded a Ph.D. in Family Studies from Brigham Young University.

Business Background for the preceding five years: Mr. Israelsen sits on the Investment Committee as a non-interested member (since 1/2010); Associate Professor of Personal and Family Finance at Brigham Young University (since 8/2004); a principal at Target Date Analytics, LLC (since 08/2007); developer of 7Twelve Portfolio (since 06/2008).

Other Financial Industry Activities or Affiliations.

CLS has an affiliated broker-dealer, mutual fund company and trust company as described below:

BROKER-DEALER

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

Relationships and Arrangements with Related Persons:

The principal executive officers and other related employees of CLS 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 a CLS client's 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 & 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 ("**Affiliated Funds**"). We receive a management fee from the **Affiliated Funds** we advise. A specified amount of client assets may be invested in **Affiliated Funds** as an integral part of some of our investment management services. Clients have the right, at any time, to prohibit us from investing any of their 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 and 0.65% from the Flexible Income Fund. We also serve as sub-adviser to the CLS AdvisorOne Funds (the Amerigo Fund, Clermont Fund and Berolina Fund) each a series of the Rydex Variable Trust (the "**Sub-Advised Funds**"). We receive an annual sub-advisory fee of 40 basis points (.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

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, CLS serves as sub-adviser to the co-managers of these portfolios, Prudential Investments, LLC and AST Investment Services, Inc. For providing sub-advisory services, CLS receives a fee that is based on the combined assets in both portfolios ranging from 10 to 20 basis points (.10% to .20%).

TRUST COMPANY

Related Persons: Constellation Trust Company

Relationships and Arrangements with Related Persons:

Constellation Trust Company ("CTC") is a Nebraska chartered trust company and an affiliate of CLS. Some of the executive officers of CLS also serve as officers and Directors of CTC. CTC serves as custodian for many of CLS's clients and has developed a joint application with CLS to facilitate the client application process. CTC's custodial services facilitate clients who desire a third party investment adviser such as CLS to manage their account(s). CLS may recommend CTC to its clients. CTC has established electronic interfaces and capabilities necessary to maintain and aggregate custodial records and reporting for clients invested across various investment platforms. CLS has entered into an arrangement with CTC to waive the annual custodial fee for CLS 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 affected 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 CLS 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.

Participation or Interest in Client Transactions.

The executive officers and other employees of CLS, 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, CLS 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 clients. Clients are advised of the possible use of **Affiliated Funds** and/or **Sub-Advised Funds** in their agreement with us and in the applicable investment management service descriptions, and have the right, at any time, to prohibit us from investing any of their managed assets in **Affiliated Funds** or **Sub-Advised Funds**.

CLS and its 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.

Code of Ethics.

CLS has adopted a joint code of ethics along with its 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 employees of CLS and is designed to, among other things, govern personal securities trading activities in the accounts of CLS employees. The Code contains general ethical principles and personal securities reporting provisions for CLS employees. In summary, the Code prohibits employees of CLS from taking inappropriate advantage of their positions and the access to information concerning the investments or investment intentions of CLS for its clients, or their ability to influence such investment intentions, for personal gain or in a manner detrimental to the interests of its clients. Rule 17j-1 and Rule 204A-1 make it unlawful for CLS employees to engage in conduct which is deceitful, fraudulent, or manipulative, or which involve false or misleading statements, in connection with the purchase or sale of securities. The Code acknowledges the general principles that CLS and/or its employees: (1) owe a fiduciary obligation to its clients; (2) have the duty at all times to place the interests of their 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 CLS Code of Ethics is available upon request.

Procedures and Disclosures.

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

- 1) We maintain records of all securities holdings for our clients, our self, 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. No officer or employee of CLS 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 employee of CLS 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. Clients may at any time, instruct us not to use **Affiliated Funds** or **Sub-Advised Funds** in their accounts.

Error Committee.

CLS has established an error committee led by CLS's Chief Compliance Officer that generally meets on a weekly basis to review reported errors. Possible errors may be identified by CLS, CLS 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 the client has been disadvantaged by the error, and (iii) suitability of the allocations resulting from an error. Unsuitable trades will always be resolved in the clients favor. If necessary, CLS will perform calculations to determine whether the client has experienced a loss resulting from a CLS error and CLS will offset any losses against gains resulting from the same error. Generally, CLS will credit the affected client's next advisory fee invoice for the amount of the loss determined by the error committee to be CLS's responsibility. In cases where CLS determines it is not appropriate to credit advisory fees, CLS may issue a check to the client's custodian for the amount of the loss to be deposited into the client's account, or under some circumstances a check may be sent directly to the client. CLS will notify its clients of errors caused by CLS that resulted in a loss of more than \$10. Errors less than \$10 will be corrected in the client's account but no notification will be sent to the client.

CLS's 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.

Conditions for Managing Accounts.

We require minimum account balances as indicated above. These stated minimums are negotiable on a discretionary basis by us.

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, the Investment Committee, (which consists of those individuals identified above) 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. Together, the client and the representative determine whether a change in their objectives warrants a change in the criteria used to manage their assets. At least annually, we send each client his or her confidential client information that describes the client's current personal and investment information. We use this information as the primary reference for managing a client's account. If the information is current, no further action is required. If any information has changed, the client is instructed to promptly advise us of any changes.

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"), an affiliate of CLS. CLS has engaged Orion to provide a "back office" system which enables CLS 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 on-line via the internet, in a secure manner, to clients, their financial representatives and their supervising broker/dealers or soliciting investment advisory firms.

Regular Reports.

Client Quarterly Performance Evaluations (Statements):

Your custodian will provide you a statement (at least quarterly) identifying the amount of funds and of each security in your account at the end of the reporting period and setting forth all transactions in your account during the reporting period. CLS also makes various reports and quarterly performance evaluations accessible to its clients via secure internet access. Upon your request, CLS may also provide you with a mailed copy of your quarterly statements and reports. As stated in our Investment Advisory Agreement, you agree to carefully review any statements and reports we provide to you and notify us within 30 days of your receipt should you have any concerns regarding such statements or reports or note any discrepancies.

In addition to your statements, you have access to your account information at all times via our web site at www.clsinvest.com or www.clsretire.com where you can view your investment objectives, investment policy statement and other important information regarding the management of your account. You are advised to periodically review all your account information to ensure it remains accurate in CLS's records.

Trade Confirmations: Individual trade confirmations and reports of account activity may be provided by the custodian.

CLS will generally communicate with its clients via letters, market up-dates and other CLS generated literature. Under circumstances where the client has expressly consented, client correspondence and notifications may be sent via electronic means (such as e-mail), or posted to a secure web site for client access.

Investment or Brokerage Discretion.

In order for us to actively manage your assets, we require that you appoint us as attorney-in-fact with full discretionary trading authority. This will allow us to buy or sell securities, as well as specify the amount of securities to invest, without first obtaining your specific consent. This authority is limited to the transfer or exchange of your funds between asset classes within mutual fund families, variable insurance product sub-accounts, exchange traded funds, and/or other securities agreed to by you in accordance with the investment management service selected by you. Under Master Manager, any transaction costs associated with the management of your assets are covered as part of your advisory fee. In cases where we determine the broker or dealer to be used, we will seek to obtain the best execution possible under the circumstances. This discretionary authority in no way restricts you, from establishing special limitations on the types of investments we may recommend or make on your behalf. You may send us specific written instruction at any time regarding securities you may wish to purchase or sell and you may instruct us not to purchase specific securities or types of securities. If we are unable to accommodate your request for any reason, we will notify you immediately.

Upon termination of our investment management services, we will have no obligation or authority to recommend or take any action with regard to the previously managed assets.

Some of our employees are licensed registered representatives of a broker-dealer, including our affiliated broker-dealer, Northern Lights Distributors, LLC. Those licensed individuals may recommend this broker/dealer to our advisory clients. However, clients are under no obligation to effect transactions through any recommended broker or dealer.

We may establish accounts with various nonaffiliated third party broker-dealers as requested by you through the investment management service selected. If we are responsible for selection of a broker-dealer, we will only establish accounts that provide the timely service and a fair price. We will attempt to find the lowest cost where possible. Establishment of an account with a third party broker dealer will not increase the advisory fees payable by you; however, you will be responsible for any fees and/or expenses for the establishment and use of your account.

Clients directing us to manage assets with a specific broker-dealer, including broker-dealers that have been pre-approved by us, have the sole responsibility for negotiating commission rates and other transaction costs with the broker-dealer. If a client selects a specific broker, we will not be required to effect any transaction through the specified broker if we reasonably believe that to do so may result in a breach of our fiduciary duties. You are advised that by instructing us to execute all transactions on behalf of your account through the specified broker, a disparity may exist between the commissions borne by your account and the commissions borne by our other clients that do not direct us to use a specified broker. You may also not necessarily obtain commission rates and execution as favorable as those that would be obtained if we were able to place transactions with other broker-dealers. You also may forego benefits that we may be able to obtain for our clients through negotiating volume discounts or block trades.

Some brokerage firms may make other products and services available that benefit CLS but may not directly benefit its clients' accounts. Some of these other products and services assist CLS in managing and administering client accounts. These may include software and other technology that provide access to client account data (such as trade confirmations and account statements); facilitate trade execution (and allocation of aggregated trade orders for multiple client accounts); provide research, pricing information and other market data; facilitate payment of advisory fees from clients' accounts; and assist with back-office functions, record keeping and reporting. Some of these services generally may be used to service all or a substantial number of CLS's accounts, including accounts not maintained at the brokerage firm providing the service. In addition, some brokerage firms provide CLS access to their institutional trading and custody services which

are typically not available to retail investors. Such services may be available contingent upon CLS maintaining certain client asset levels.

Best Execution Committee.

CLS has a Best Execution Committee that meets on a quarterly basis to review CLS's trading execution practices in order to ensure CLS trading practices are appropriate. The committee is comprised of the Chief Compliance Officer, Chief Operations Officer, Senior Portfolio Manager and data analysts.

Additional 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 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 CLS investment management service selected and the custodial platform utilized.

Because accounts maintained with certain custodians are more efficient for CLS to manage, CLS may offer increased referral fee payouts for client assets maintained with these custodians, including client assets maintained with Constellation Trust Company, an affiliate of CLS. Under each of the investment services offered by CLS, **the amount of the referral fee CLS pays to the Solicitor may be up to one hundred percent (100%) of the amount of the advisory fee CLS receives 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.

CLS's 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 CLS after February 15, 2008, through NLG or other entities affiliated with Brad Lankford.

Privacy Policy.

We recognize and respect the privacy of each of our customers and their expectations for confidentiality. The protection of customer information is of fundamental importance in our operation and we take seriously our responsibility to protect nonpublic personal information.

We collect, retain and use information that assists us in providing the best service possible. This information comes from the following sources:

- Account applications and other required forms,
- Written, oral, electronic or telephonic communications and
- Account and transaction histories with us, our affiliates, or others

We do not disclose any nonpublic personal information about our customers or former customers to anyone, except as permitted by law.

We restrict access to nonpublic personal information about you to those employees, affiliates, and service providers who need to know that information to provide our products or services to you. We require that these entities limit the use of the information provided to the purposes for which it was disclosed and as permitted by law.

We maintain physical, electronic, and procedural safeguards that comply with federal standards to guard your nonpublic personal information.

Proxy Policy.

We do not receive proxies for securities held in your accounts. 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 accounts will be received by you directly from the custodian of your assets, or will be handled as otherwise agreed between you and the custodian.

On the following pages you will find a copy of CLS's 2009 Financial Statements.

CLS Investments, LLC

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

Financial Statements as of and for the
Year Ended December 31, 2009, and
Independent Auditors' Report



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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheet of CLS Investments, LLC (formerly, CLS Investment Firm, LLC) (a wholly owned subsidiary of NorthStar Financial Services Group, LLC) (the "Company") as of December 31, 2009, and the related statements of income and changes in member's equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements 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 statements are 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 financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2009, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

March 19, 2010

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

BALANCE SHEET
AS OF DECEMBER 31, 2009

ASSETS

ASSETS:

Cash and cash equivalents	\$ 124,198
Receivables	2,980,247
Due from affiliate	2,055,283
Prepaid advisory fees expense	268,091
Fixed assets — net	148,403
Goodwill	794,395
Other assets	<u>118,310</u>

TOTAL \$6,488,927

LIABILITIES AND MEMBER'S EQUITY

LIABILITIES:

Accounts payable and accrued expenses	\$2,219,144
Advisory fees payable	1,736,429
Unearned advisory fee revenue	392,200
Due to affiliate	6,632
Capital lease obligations	<u>1,849</u>

Total liabilities 4,356,254

COMMITMENTS AND CONTINGENCIES

MEMBER'S EQUITY 2,132,673

TOTAL \$6,488,927

See notes to financial statements.

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

STATEMENT OF INCOME AND CHANGES IN MEMBER'S EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2009

REVENUES:

Gross revenues:	
Investment advisory fees	\$ 30,736,769
Investment management fees	9,266,241
Other income	2,495,276
Costs:	
Solicitor expenses	(23,564,107)
Advisory fee refunds	(393,642)
Custodian expenses	(1,220,344)
Other fees	<u>(3,073,769)</u>
 Total net revenues	 <u>14,246,424</u>

OPERATING EXPENSES:

Employee compensation and benefits	5,168,624
General and administrative expenses	3,947,865
Management fees	<u>1,545,734</u>

Total operating expenses 10,662,223

OPERATING INCOME 3,584,201

OTHER EXPENSES (41,971)

NET INCOME 3,542,230

MEMBER'S EQUITY — Beginning of year 5,116,340

DISTRIBUTIONS TO PARENT (6,525,897)

MEMBER'S EQUITY — End of year \$ 2,132,673

See notes to financial statements.

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

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2009

CASH FLOWS FROM OPERATING ACTIVITIES:	
Net income	\$ 3,542,230
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	104,730
(Increase) decrease in assets:	
Receivables	(593,716)
Prepaid advisory fees expense	138,290
Other assets	21,251
Amounts due from affiliates	2,796,357
Increase (decrease) in liabilities:	
Accounts payable and accrued expenses	440,727
Advisory fees payable	289,851
Unearned advisory fee revenue	(200,953)
Amounts due to affiliates	<u>737</u>
Net cash provided by operating activities	<u>6,539,504</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of fixed assets	<u>(6,803)</u>
Net cash used in investing activities	<u>(6,803)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:	
Payments on capital lease obligations	(4,514)
Distributions to parent	<u>(6,525,897)</u>
Net cash used in financing activities	<u>(6,530,411)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,290
CASH AND CASH EQUIVALENTS — Beginning of year	<u>121,908</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 124,198</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION:	
Cash paid for interest	<u>\$ 701</u>

See notes to financial statements.

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

NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CLS Investments, LLC (formerly, CLS Investment Firm, 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.

Codification — The Financial Accounting Standards Board’s (“FASB”) Accounting Standards Codification (“ASC”) became effective on July 1, 2009. As of that date, the ASC became the single source of authoritative U.S. generally accepted accounting principles (“GAAP”) for all nongovernment entities. The ASC superseded existing FASB Statements, Interpretations, staff positions, and technical bulletins, Emerging Issues Task Force (“EITF”) abstracts and related literature. All other accounting literature is considered non-authoritative. The adoption of the ASC affects the way companies refer to U.S. GAAP in financial statements and accounting policies. As a result, the references to GAAP have been updated in this report. The adoption of the ASC did not impact the Company’s financial condition, results of operations or cash flow.

Estimates — The preparation of financial statements 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 financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents — The Company considers cash and all highly liquid debt instruments with maturities of less than three months from the date of purchase to be cash equivalents.

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, 2009.

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 Statement No. 142, *Goodwill and Other Intangible Assets*, codified in 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, 2009, consisted of the following:

Computer equipment	\$ 843,828
Telephone equipment	14,328
Furniture and fixtures	320,179
Leasehold improvements	194,664
Equipment under capital leases	<u>496,608</u>
	1,869,607
Less accumulated depreciation and amortization	<u>(1,721,204)</u>
	<u>\$ 148,403</u>

Depreciation and amortization expense of \$104,730 in 2009 is included in the accompanying statement of income and changes in member's equity under the caption of general and administrative expenses.

Accumulated amortization of fixed assets under capital leases was \$494,938 as of December 31, 2009.

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, 2009, and determined no impairment loss was required to be recognized in 2009.

4. CAPITAL LEASE COMMITMENTS

Capital lease obligations at December 31, 2009, consist of computer equipment leased by the Company.

The remaining future minimum lease payment under capital leases, together with the present value of the minimum lease payment as of December 31, 2009, is as follows:

Remaining minimum lease payments in 2010	\$ 2,033
Less amount representing interest	<u>(184)</u>
Present value of net minimum payments	<u>\$ 1,849</u>

Amortization expense of \$4,084 for the year ended December 31, 2009, is included in the accompanying statement of income and changes in member's equity and is included in total depreciation and amortization expense of \$104,730 in 2009 (see Note 2).

5. 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. During 2009, payments of \$308,998 were made to Schield/CCAM. These are included in the accompanying statement of income and changes in member's equity under the caption of solicitor expenses.

The Company, along with NorthStar, Orion Advisor Services, LLC ("Orion") (a wholly owned subsidiary of NorthStar) and Gemini Fund Services, LLC ("Gemini") (a wholly owned subsidiary of NorthStar which includes Gemcom, LLC, a wholly owned subsidiary of Gemini), 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, 2009.

6. RELATED PARTY TRANSACTIONS

NorthStar assesses each of its subsidiaries that subsidiary's ratable share of certain overhead and payroll expenses. The total amount of these overhead and payroll expenses allocated to the Company during 2009 of \$1,545,734 is included in the accompanying statement of income and changes in member's equity under the caption of management fees. Additionally, in the ordinary course of business, the Company may advance funds to NorthStar. The Company had a due from affiliate of \$2,055,283 at December 31, 2009, 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. Total service fees incurred from Constellation during 2009 were \$1,220,344 and are included in the accompanying statement of income and changes in member's equity under the caption of custodian expenses. The Company had an accrued liability in the amount of \$361,206 to Constellation at December 31, 2009, included in the accompanying balance sheet under the caption of accounts payable and accrued expenses.

The Company pays Orion for operational support services. Total fees paid to Orion during 2009 of \$1,781,306 are included in the accompanying statement of income and changes in member's equity under the caption of general and administrative 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. Total service fees incurred from NLD during 2009 were \$48,706 and are included in the accompanying statement of income and changes in

member's equity under the caption of general and administrative expenses. The Company had a payable to NLD of \$6,632 at December 31, 2009, 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.

7. 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. For the year ended December 31, 2009, contributions to the plan for the benefit of Company employees were in the amount of \$112,322, included in the accompanying statement of income and changes in member's equity under the caption of employee compensation and benefits.

8. ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS

On January 1, 2009, the Company adopted required new guidance on income taxes that defines the confidence level that a tax position must meet in order to be recognized in the financial statements. This guidance requires that the effects of a tax position be recognized only if it is "more-likely-than-not" to be sustained based solely on its technical merits as of the reporting date. The more-likely-than-not threshold represents a positive assertion by management that a company is entitled to the economic benefits of a tax position. If a tax position is not considered more-likely-than-not to be sustained based solely on its technical merits, no effects of the position are to be recognized. The effects of the tax position are measured as the amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. The adoption of this new guidance within ASC 740-10, *Income Taxes*, did not have an impact on the Company's financial statements.

9. SUBSEQUENT EVENTS

The subsequent events for the Company have been evaluated by management through March 19, 2010. It was determined that there were no subsequent events to recognize or disclose in the financial statements presented herein.

* * * * *