



## **Southern Financial Group, LLC**

700 Corporate Parkway  
Birmingham, AL 35242

Telephone: 205-383-1415  
Facsimile: 205-383-1416

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

January 28, 2020

### **FORM ADV PART 2A BROCHURE**

This brochure provides information about the qualifications and business practices of Southern Financial Group, LLC. If you have any questions about the contents of this brochure, contact us at 205-383-1415. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Southern Financial Group, LLC is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Southern Financial Group, LLC is a registered investment adviser. Registration with the United States Securities and Exchange Commission or any state securities authority does not imply a certain level of skill or training.

## **Item 2 Material Changes**

Form ADV Part 2 requires registered investment advisers to amend their brochure when information becomes materially inaccurate. If there are any material changes to an adviser's disclosure brochure, the adviser is required to notify you and provide you with a description of the material changes.

Since the filing of our last annual updating amendment, dated February 5, 2019 we have no material changes to report.

### Item 3 Table Of Contents

Item 1 Cover Page	Page 1
Item 2 Material Changes	Page 2
Item 3 Table Of Contents	Page 3
Item 4 Advisory Business	Page 4
Item 5 Fees and Compensation	Page 6
Item 6 Performance-Based Fees and Side-By-Side Management	Page 8
Item 7 Types of Clients	Page 8
Item 8 Methods of Analysis, Investment Strategies and Risk of Loss	Page 8
Item 9 Disciplinary Information	Page 10
Item 10 Other Financial Industry Activities and Affiliations	Page 10
Item 11 Code of Ethics, Participation or Interest in Client Transactions and Personal Trading	Page 11
Item 12 Brokerage Practices	Page 12
Item 13 Review of Accounts	Page 14
Item 14 Client Referrals and Other Compensation	Page 15
Item 15 Custody	Page 15
Item 16 Investment Discretion	Page 16
Item 17 Voting Client Securities	Page 16
Item 18 Financial Information	Page 16

## Item 4 Advisory Business

### General Information

Southern Financial Group, LLC ("Southern Financial Group") was formed in 2006, and provides portfolio management, financial planning, consulting, income tax preparation, and estate settlement services to its clients.

Christopher T. Holder and David F. Painter are the principal owners of Southern Financial Group. Please see **Brochure Supplements, Exhibit A**, for more information on these principal owners and other individuals who formulate investment advice and have direct contact with clients, or have discretionary authority over client accounts.

### SERVICES PROVIDED

#### Individual Portfolio Management

Our firm provides continuous advice to a client regarding the investment of client funds based on the individual needs of the client. Through personal discussions in which goals and objectives based on a client's particular circumstances are established, we develop a client's personal investment policy and create and manage a portfolio based on that policy. During our data-gathering process, we determine the client's individual objectives, time horizons, risk tolerance, and liquidity needs. As appropriate, we also review and discuss a client's prior investment history, as well as family composition and background.

We manage these advisory accounts on a discretionary basis. Account supervision is guided by the client's stated objectives (i.e., maximum capital appreciation, growth, income, or growth and income), as well as tax considerations.

Clients may impose reasonable restrictions on investing in certain investments, types of investments, or industry sectors.

Our investment recommendations are not limited to any specific products or services offered by a broker-dealer or insurance company and will generally include advice regarding the following:

- Exchange-listed securities
- Securities traded over-the-counter
- Foreign issuers
- Warrants
- Corporate debt securities (other than commercial paper)
- Commercial paper
- Certificates of deposit
- Municipal securities
- Variable life insurance
- Variable annuities
- Mutual fund shares
- United States governmental securities
- Other

Because some types of investments involve certain additional degrees of risk, they will only be implemented/recommended when consistent with the client's stated investment objectives, tolerance for risk, liquidity and suitability.

The majority of Portfolio Management clients elect to receive various written reports. These reports may include cost basis reporting, purchases and sales, income and expenses reporting, as well as performance reporting. We periodically discuss the types of reports preferred by each client. Reports are typically provided during client meetings and at other times SFG feels it beneficial to a client. Clients may also request additional reports at any time. There is a nominal fee for reporting; please see **Item 5 - Fees and Compensation**.

### **Financial Planning**

We provide financial planning services. Financial planning is a comprehensive evaluation of a client's current and future financial state by using currently known variables to predict future cash flows, asset values and withdrawal plans. Through the financial planning process, all questions, information and analysis are considered as they impact and are impacted by the entire financial and life situation of the client. Clients requesting this service receive a written report which provides the client with a detailed financial plan designed to assist the client in achieving his or her financial goals and objectives.

In general, the financial plan can address any or all of the following areas:

- **PERSONAL:** We review family records, budgeting, personal liability, estate information and financial goals.
- **TAX & CASH FLOW:** We analyze the client's income tax and spending and planning for past, current and future years; then illustrate the impact of various investments on the client's current income tax and future tax liability.
- **INVESTMENTS:** We analyze investment alternatives and their effect on the client's portfolio.
- **INSURANCE:** When requested we review existing policies to ensure proper coverage for life, health, disability, long-term care, liability, home and automobile.
- **RETIREMENT:** We analyze current strategies and investment plans to help the client achieve his or her retirement goals.
- **ESTATE:** We assist the client in developing long-term strategies, including as appropriate, living trusts, wills, review of estate tax, powers of attorney, etc. We gather required information through in-depth personal interviews. Information gathered includes the client's current financial status, tax status, future goals, returns objectives and attitudes towards risk. We carefully review documents supplied by the client, including a questionnaire completed by the client, and prepare a written report. Should the client choose to implement the recommendations contained in the plan we will assist them, however, implementation of financial plan recommendations is entirely at the client's discretion.

We also provide general advice on topics that may include tax and budgetary planning, estate planning and business planning.

Typically the financial plan is presented to the client promptly, provided that all information needed to prepare the financial plan has been provided.

### **Consulting, Income Tax Preparation, Estate Settlement Services**

Clients can also receive general advice and services on a more focused basis. This may include advice on only an isolated area(s) of concern such as income tax preparation, estate settlement issues, or any other specific topic. These services will be offered on a case by case basis.

### **Assets Under Management**

As of December 31, 2019, we provide continuous management services for \$631,712,382 in client assets on a discretionary basis.

## Item 5 Fees and Compensation

### Portfolio Management Fees

The annualized fee for portfolio management services will be charged as a percentage of assets under management, according to the following schedule:

<b>Assets Under Management</b>	<b>Annual Fee</b>
First \$500,000	1.00%
Next \$500,000	0.85%
Next \$1,000,000	0.75%
Above \$2,000,000	0.50%

Our fees are billed quarterly, in advance, at the beginning of each calendar quarter based upon the value (market value or fair market value in the absence of market value), of the client's account at the end of the previous quarter. Clients may make additions to the account at any time. Additional assets received into the account will be charged a pro rata fee based upon the number of days remaining in the quarter at the time of the deposit. No fee adjustments will be made for partial withdrawals, nor for account appreciation or depreciation within a billing period. Fees will be debited from the account in accordance with the client authorization in the Investment Advisory Agreement.

A minimum account size of \$50,000 of assets under management and a minimum quarterly fee of \$75 per account is required for this service. A setup fee of \$1,000 will be charged per account, but waived provided the account remains active for one entire year. These items may be negotiable under certain circumstances. Southern Financial Group may group certain related client accounts for the purposes of achieving the minimum account size and determining the annualized fee.

**Limited Negotiability of Advisory Fees:** Although Southern Financial Group has established the aforementioned fee schedule(s), we retain the discretion to negotiate alternative fees on a client-by-client basis. Client facts, circumstances and needs will be considered in determining the fee schedule. These include the complexity of the client, assets to be placed under management, anticipated future additional assets; related accounts; portfolio style, account composition, reports, among other factors. The specific annual fee schedule will be identified in the contract between the adviser and each client.

Discounts, not generally available to our advisory clients, may be offered to family members and friends of associated persons of our firm.

### Financial Planning Fees

Southern Financial Group financial planning fees will be determined based on the nature of the services being provided and the complexity of each client's circumstances. All fees are agreed upon prior to entering into a contract with any client.

Our financial planning fees are calculated and charged on an hourly basis, ranging from \$50 to \$200 per hour. Although the length of time it will take to provide a Financial Plan will depend on each client's personal situation, we will provide an estimate for the total hours at the start of the advisory relationship. There is a minimum fee of \$1,000 for this service.

These fees may be waived for clients who choose to use the firm's portfolio management services or other services provided by the firms associated persons in their capacities as registered representatives or insurance agents.

### **Consulting, Income Tax Preparation, Estate Settlement Services Fees**

Southern Financial Group's fee for these services will be determined based on the nature of the services being provided and the complexity of each client's circumstances. All fees are agreed upon prior to entering into a contract with any client.

These fees are calculated and charged on an hourly basis, ranging from \$50 to \$200 per hour. Clients are provided an invoice at the time the services are rendered. Clients have the option of paying the invoice directly or having the fees deducted from their brokerage account(s).

### **Other Compensation**

**Transaction-based accounts:** Mr. Holder and Mr. Painter are licensed as registered representatives of Triad Advisors, LLC ("Triad") (FINRA and SIPC member, and registered broker-dealer) and are licensed as insurance agents with various insurance companies. As such, they are entitled to receive commissions or other remuneration on the sale of insurance as well as other products.

As a result of this relationship, Triad may have access to certain confidential information (e.g., financial information, investment objectives, transactions, and holdings) about Southern Financial Group clients, even if the client does not establish any account through Triad. If you would like a copy of Triad's privacy notice, please contact David Painter.

### **GENERAL INFORMATION**

**Termination of the Advisory Relationship:** A client agreement may be canceled at any time, by either party, for any reason upon receipt of 24 hours written notice. As disclosed above, certain fees are paid in advance of services provided. Upon termination of any account, any prepaid, unearned fees will be promptly refunded. In calculating a client's reimbursement of fees, we will pro rate the reimbursement according to the number of days remaining in the billing period. Such fee refunds are subject to collection of SFG's \$75 per account minimum quarterly fee plus a \$25 per account termination fee.

**Mutual Fund Fees:** Fees paid to Southern Financial Group for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds and/or ETFs to their shareholders. These fees and expenses are described in each fund's prospectus. These fees will generally include a management fee, other fund expenses, and a possible distribution (12b-1) fee. If the fund also imposes sales charges, a client may pay an initial or deferred sales charge. A client could invest in a mutual fund directly, without our services. In that case, the client would not receive the services provided by our firm which are designed, among other things, to assist the client in determining which mutual fund or funds are most appropriate to each client's financial condition and objectives. Accordingly, the client should review both the fees charged by the funds and our fees to fully understand the total amount of fees to be paid by the client and to thereby evaluate the advisory services being provided.

**Additional Fees and Expenses:** In addition to our advisory fees, clients are also responsible for the fees and expenses charged by custodians and imposed by broker dealers, including, but not limited to, any transaction charges imposed by a broker dealer with which an independent investment manager effects transactions for the client's account(s). Refer to the "Brokerage Practices" section (Item 12) of this Form ADV for more information.

**Additional Portfolio Recordkeeping Fees** Clients will be charged a nominal quarterly reporting fee to cover the cost of portfolio management software used to produce the reports. This software allows the performance, cost basis, and other records pertaining to a client's portfolio to be available upon

request by the client. Portfolio management software fees generally range from \$8.50 to \$8.75 per client account per quarter, and vary based on the total number of SFG accounts utilizing the software. Fees are debited from the client's brokerage account.

**Grandfathering of Minimum Account Requirements:** Pre-existing advisory clients are subject to Southern Financial Group's minimum account requirements and advisory fees in effect at the time the client entered into the advisory relationship. Therefore, our firm's minimum account requirements will differ among clients.

**ERISA Accounts:** Southern Financial Group may be deemed to be a fiduciary to advisory clients that are employee benefit plans or individual retirement accounts (IRAs) pursuant to the Employee Retirement Income and Securities Act ("ERISA"). As such, our firm is subject to specific duties and obligations under ERISA and the Internal Revenue Code that include among other things, restrictions concerning certain forms of compensation. To avoid engaging in prohibited transactions, Southern Financial Group may only charge fees for investment advice about products for which our firm and/or our related persons do not receive any commissions or 12b-1 fees.

With respect to any account for which Southern Financial Group meets the definition of a fiduciary under Department of Labor rules, Southern Financial Group acknowledges that both Southern Financial Group and its Related Persons are acting as fiduciaries. Additional disclosure may be found elsewhere in this Brochure or in the written agreement between Southern Financial Group and Client.

## **Item 6 Performance-Based Fees and Side-By-Side Management**

Southern Financial Group does not have any performance-based fee arrangements. "Side-by-Side Management" refers to a situation in which the same firm manages accounts that are billed based on a percentage of assets under management and at the same time manages other accounts for which fees are assessed on a performance fee basis. Because Southern Financial Group has no performance-based fee accounts, it has no side-by-side management.

## **Item 7 Types of Clients**

Southern Financial Group serves individuals, high net worth individuals, corporations, and other businesses. As previously disclosed in **Item 5, Fees and Compensation**, our firm has established certain initial minimum account requirements, based on the nature of the service(s) being provided. For a more detailed understanding of those requirements, please review the disclosures provided in each applicable service.

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

### **Methods of Analysis**

**Asset Allocation.** Rather than focusing primarily on investment selection, we attempt to identify an appropriate ratio of securities, fixed income, and cash suitable to the client's investment goals and risk tolerance.

A risk of asset allocation is that the client may not participate in sharp increases in a particular security, industry or market sector. Another risk is that the ratio of securities, fixed income, and cash will change over time due to stock and market movements and, if not corrected, will no longer be appropriate for the client's goals. For this reason, we will rebalance the portfolios as dictated by changes in economic conditions.



## **Investment Strategies**

Southern Financial Group's strategic approach is to invest each portfolio in accordance with the Plan that has been developed specifically for each client. This means that the following strategies may be used in varying combinations over time for a given client, depending upon the client's individual circumstances.

**Long-term purchases.** We purchase investments with the idea of holding them in the client's account for a year or longer. Typically we employ this strategy when we want exposure to a particular asset class over time.

**Short-term purchases.** When utilizing this strategy, we purchase investments with the idea of selling them within a relatively short time (typically a year or less). We do this in an attempt to take advantage of conditions that we believe will soon result in a positive price swing in the investments we purchase.

**Trading.** Although not common, upon client request we may purchase investments with the idea of selling them very quickly (typically within 30 days or less). We do this in an attempt to take advantage of potential brief price swings.

**Margin transactions.** Although not common, upon client request we will purchase investments for your portfolio with money borrowed from your brokerage account. This allows you to purchase more investments than you would be able to with your available cash, and allows us to purchase investments without selling other current holdings.

## **Risk of Loss**

While Southern Financial Group seeks to diversify clients' investment portfolios across various asset classes consistent with their Investment Plans in an effort to reduce risk of loss, all investment portfolios are subject to risks. Accordingly, there can be no assurance that client investment portfolios will be able to fully meet their investment objectives and goals, or that investments will not lose money.

Below is a description of several of the principal risks that client investment portfolios face.

**Management Risks.** While Southern Financial Group manages client investment portfolios based on Southern Financial Group's experience, research and proprietary methods, the value of client investment portfolios will change daily based on the performance of the underlying securities in which they are invested. Accordingly, client investment portfolios are subject to the risk that Southern Financial Group or a Manager allocates assets to asset classes that are adversely affected by unanticipated market movements, and the risk that Southern Financial Group's specific investment choices could underperform their relevant indexes.

**Risks of Investments in Mutual Funds, ETFs and Other Investment Pools.** As described above, Southern Financial Group may invest client portfolios in mutual funds, ETFs and other investment pools ("pooled investment funds"). Investments in pooled investment funds are generally less risky than investing in individual securities because of their diversified portfolios; however, these investments are still subject to risks associated with the markets in which they invest. In addition, pooled investment funds' success will be related to the skills of their particular managers and their performance in managing their funds. Pooled investment funds are also subject to risks due to regulatory restrictions applicable to registered investment companies under the Investment Company Act of 1940.

*Equity Market Risks.* Southern Financial Group will generally invest portions of client assets directly into equity investments, primarily stocks, or into pooled investment funds that invest in the stock market. As noted above, while pooled investments have diversified portfolios that may make them less risky than investments in individual securities, funds that invest in stocks and other equity securities are nevertheless subject to the risks of the stock market. These risks include, without limitation, the risks that stock values will decline due to daily fluctuations in the markets, and that stock values will decline over longer periods (e.g., bear markets) due to general market declines in the stock prices for all companies, regardless of any individual security's prospects.

*Fixed Income Risks.* Southern Financial Group may invest portions of client assets directly into fixed income instruments, such as bonds and notes, or may invest in pooled investment funds that invest in bonds and notes. While investing in fixed income instruments, either directly or through pooled investment funds, is generally less volatile than investing in stock (equity) markets, fixed income investments nevertheless are subject to risks. These risks include, without limitation, interest rate risks (risks that changes in interest rates will devalue the investments), credit risks (risks of default by borrowers), or maturity risk (risks that bonds or notes will change value from the time of issuance to maturity).

*Foreign Securities Risks.* Southern Financial Group may invest portions of client assets into pooled investment funds that invest internationally. While foreign investments are important to the diversification of client investment portfolios, they carry risks that may be different from U.S. investments. For example, foreign investments may not be subject to uniform audit, financial reporting or disclosure standards, practices or requirements comparable to those found in the U.S. Foreign investments are also subject to foreign withholding taxes and the risk of adverse changes in investment or exchange control regulations. Finally, foreign investments may involve currency risk, which is the risk that the value of the foreign security will decrease due to changes in the relative value of the U.S. dollar and the security's underlying foreign currency.

## **Item 9 Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to a client's evaluation of Southern Financial Group or the integrity of Southern Financial Group's management. Southern Financial Group has no disciplinary events to report.

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

Mr. Holder and Mr. Painter, Management Persons of Southern Financial Group are also Registered Representatives of Triad, a FINRA and SIPC member, and registered broker/dealer. Please see *Item 5* for more information.

Mr. Holder and Mr. Painter are also shareholders of National Advisors Holdings, Inc. ("NAH") a Delaware corporation organized in August of 1998. Each hold a minority interest in the aggregate stock of NAH. NAH has formed a federally chartered trust company, National Advisors Trust Company ("NATC"). NATC offers trust services to clients of investment advisory firms, such as Southern Financial Group across the United States. When consistent with its fiduciary duty to act in the best interests of its clients, a client may be recommended to the trust services of NATC. Due to this minority interest of Mr. Holder and Mr. Painter in NATC, a conflict of interest in recommending a client to these services exists.

We take the following steps to address conflicts of interest due to the items mentioned above:

- we disclose to clients the existence of all material conflicts of interest, including the potential for our firm and our employees to earn compensation from advisory clients in addition to our firm's advisory fees;
- we disclose to clients that they are not obligated to purchase recommended investment products from our representatives;
- we collect, maintain and document accurate, complete and relevant client background information, including the client's financial goals, objectives and risk tolerance;
- our firm's partners conduct regular reviews of each client account to verify that all recommendations made to a client are suitable to the client's needs and circumstances;
- we require that our employees seek prior approval of any outside employment activity so that we may ensure that any conflicts of interests in such activities are properly addressed;
- we periodically monitor these outside employment activities to verify that any conflicts of interest continue to be properly addressed by our firm; and
- we educate our employees regarding the responsibilities of a fiduciary, including the need for having a reasonable and independent basis for the investment advice provided to clients.

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

### **Code of Ethics and Personal Trading**

Southern Financial Group has adopted a Code of Ethics ("the Code"), the full text of which is available to you upon request. Southern Financial Group's Code has several goals. First, the Code is designed to assist Southern Financial Group in complying with applicable laws and regulations governing its investment advisory business. Under the Investment Advisers Act of 1940, Southern Financial Group owes fiduciary duties to its clients. Pursuant to these fiduciary duties, the Code requires persons associated with Southern Financial Group (managers, officers and employees) to act with honesty, good faith and fair dealing in working with clients. In addition, the Code prohibits such associated persons from trading or otherwise acting on insider information.

Next, the Code sets forth guidelines for professional standards for Southern Financial Group's associated persons. Under the Code's Professional Standards, Southern Financial Group expects its associated persons to put the interests of its clients first, ahead of personal interests. In this regard, Southern Financial Group associated persons are not to take inappropriate advantage of their positions in relation to Southern Financial Group clients.

Third, the Code sets forth policies and procedures to monitor and review the personal trading activities of associated persons. From time to time Southern Financial Group's associated persons may invest in the same securities recommended to clients. Under its Code, Southern Financial Group has adopted procedures designed to reduce or eliminate conflicts of interest that this could potentially cause. The Code's personal trading policies include procedures for limitations on personal securities transactions of associated persons, reporting and review of such trading and pre-clearance of certain types of personal trading activities. These policies are designed to discourage and prohibit personal trading that would disadvantage clients. The Code also provides for disciplinary action as appropriate for violations.

### **Participation or Interest in Client Transactions**

Because associated persons may invest in the same securities as those held in client accounts, Southern Financial Group has established a policy requiring its associated persons to pre-clear transactions in certain of these securities with the Chief Compliance Officer. The goal of this policy is to avoid any conflict of interest that may present itself in these situations. Some types of securities, such

as CDs, treasury obligations and open-end mutual funds are exempt from this pre-clearance requirement. However, in the event of other identified potential trading conflicts of interest, Southern Financial Group's goal is to place client interests first.

Consistent with the foregoing, Southern Financial Group maintains policies regarding participation in initial public offerings ("IPOs") and private placements to comply with applicable laws and avoid conflicts with client transactions. If a Southern Financial Group associated person wishes to participate in an IPO or invest in a private placement, he or she must submit a pre-clearance request and obtain the approval of the Chief Compliance Officer.

Finally, if associated persons trade with client accounts (i.e., in a bundled or aggregated trade), and the trade is not filled in its entirety, the associated person's shares will be removed from the block, and the balance of shares will be allocated among client accounts in accordance with Southern Financial Group's written policy.

## **Item 12 Brokerage Practices**

Clients may ask that we recommend a broker-dealer to be used. The factors considered when making these recommendations are the broker's ability to provide professional services, our experience with the broker, the broker's reputation, the broker's quality of execution services and costs of such services, among other factors. Clients are not under any obligation to effect trades through any recommended brokers and should evaluate each before opening an account.

Southern Financial Group has an arrangement with National Financial Services LLC, and Fidelity Brokerage Services LLC (together with all affiliates, "Fidelity") through which Fidelity provides our firm with their "platform" services. The platform services include, among others, brokerage, custodial, administrative support, record keeping and related services that are intended to support intermediaries like Southern Financial Group in conducting business and in serving the best interests of our clients but that may also benefit us.

Fidelity charges brokerage commissions and transaction fees for effecting certain securities transactions (i.e., transactions fees are charged for certain no-load mutual funds, commissions are charged for individual equity and debt securities transactions). Fidelity enables Southern Financial Group to obtain many no-load mutual funds without transaction charges and other no-load funds at nominal transaction charges. Fidelity's commission rates are generally considered discounted from customary retail commission rates. However, the commissions and transaction fees charged by Fidelity may be higher or lower than those charged by other custodians and broker-dealers. As part of the arrangement, Fidelity also makes available to our firm, at no additional charge to us, certain research and brokerage services, including research services obtained by Fidelity directly from independent research companies, as selected by Southern Financial Group (within specified parameters). These services are used by our firm to manage accounts for which we have investment discretion. Without this arrangement, we might be compelled to purchase the same or similar services at our own expense.

As a result of receiving such services for no additional cost, we may have an incentive to recommend our clients to use or expand the use of Fidelity's services. We examined this potential conflict of interest when we chose to enter into the relationship with Fidelity and have determined that the relationship is in the best interests of Southern Financial Group's clients and satisfies our client obligations, including our duty to seek best execution. A client may pay a commission that is higher than another qualified broker-dealer might charge to effect the same transaction where we determine in good faith that the commission is reasonable in relation to the value of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost,

but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealer's services, including the value of research provided, execution capability, commission rates, and responsiveness. Accordingly, while Southern Financial Group will seek competitive rates, to the benefit of all clients, we may not necessarily obtain the lowest possible commission rates for specific client account transactions. Although the investment research products and services that may be obtained by us will generally be used to service all of our clients, a brokerage commission paid by a specific client may be used to pay for research that is not used in managing that specific client's account. Southern Financial Group and Fidelity are not affiliated.

### **Soft Dollars**

Generally, in addition to a broker's ability to provide "best execution," Southern Financial Group may also consider the value of "research" or additional brokerage products and services a broker-dealer has provided or may be willing to provide. The provision of these added benefits may be based in whole or in part on the value of Southern Financial Group's assets under management held at Fidelity, on the brokerage revenue to Fidelity generated by Southern Financial Group's activities, or on a combination of these two factors. This is known as paying for those services or products with "soft dollars." Because many of the services or products could be considered to provide a benefit to Southern Financial Group, and because the "soft dollars" used to acquire them are client assets, Southern Financial Group could be considered to have a conflict of interest in allocating client brokerage business. In this way, Southern Financial Group could receive valuable benefits by selecting a particular broker or dealer to execute client transactions and the transaction compensation charged by that broker or dealer might not be the lowest compensation Southern Financial Group might otherwise be able to negotiate. In addition, Southern Financial Group could have an incentive to cause clients to engage in more securities transactions than would otherwise be optimal to generate brokerage compensation with which to acquire products and services.

Southern Financial Group's use of soft dollars is intended to comply with the requirements of Section 28(e) of the Securities Exchange Act of 1934. Section 28(e) provides a "safe harbor" for investment managers who use commissions or transaction fees paid by their advised accounts to obtain investment research services that provide lawful and appropriate assistance to the manager in performing investment decision-making responsibilities. As required by Section 28(e), Southern Financial Group will make a good faith determination that the amount of commission or other fees paid is reasonable in relation to the value of the brokerage and research services provided. That is, before placing orders with a particular broker, Southern Financial Group generally determines, considering all the factors described below, that the compensation to be paid to Fidelity is reasonable in relation to the value of all the brokerage and research products and services provided by Fidelity. In making this determination, Southern Financial Group typically considers not only the particular transaction or transactions, and not only the value of brokerage and research services and products to a particular client, but also the value of those services and products in Southern Financial Group's performance of its overall responsibilities to all of its clients. In some cases, the commissions or other transaction fees charged by a particular broker-dealer for a particular transaction or set of transactions may be greater than the amounts another broker-dealer who did not provide research services or products might charge.

The products and services Southern Financial Group receives from broker-dealers will generally be used in servicing all Southern Financial Group client accounts. Southern Financial Group's use of these products and services will not be limited to the accounts that paid commissions to the broker-dealer for such products and services. In addition, soft dollar benefits may not be allocated to accounts proportionately according to the soft dollar credits the accounts generate.

## **Aggregated Trade Policy**

Southern Financial Group may enter trades as a block where possible and when advantageous to clients whose accounts have a need to buy or sell shares of the same security. This method permits the trading of aggregate blocks of securities composed of assets from multiple client accounts. It allows Southern Financial Group to execute trades in a timely, equitable manner, and may reduce overall costs to clients

Southern Financial Group will only aggregate transactions when it believes that aggregation is consistent with its duty to seek best execution (which includes the duty to seek best price) for its clients, and is consistent with the terms of Southern Financial Group's Investment Advisory Agreement with each client for which trades are being aggregated. No advisory client will be favored over any other client; each client that participates in an aggregated order will participate at the average share price for all Southern Financial Group's transactions in a given security on a given business day. Transaction costs for participating accounts will be assessed at the custodian's commission rate applicable to each account; therefore, transaction costs may vary among accounts. Accounts may be excluded from a block due to tax considerations, client direction or other factors making the account's participation ineligible or impractical.

Southern Financial Group will prepare, before entering an aggregated order, a written statement ("Allocation Statement") specifying the participating client accounts and how it intends to allocate the order among those clients. If the aggregated order is filled in its entirety, it will be allocated among clients in accordance with the Allocation Statement. If the order is partially filled, it will generally be allocated pro-rata, based on the Allocation Statement, or randomly in certain circumstances. Notwithstanding the foregoing, the order may be allocated on a basis different from that specified in the Allocation Statement if all client accounts receive fair and equitable treatment, and the reason for different allocation is explained in writing and is approved by an appropriate individual/officer of Southern Financial Group. Southern Financial Group's books and records will separately reflect, for each client account included in a block trade, the securities held by and bought and sold for that account. Funds and securities of clients whose orders are aggregated will be deposited with one or more banks or broker-dealers, and neither the clients' cash nor their securities will be held collectively any longer than is necessary to settle the transaction on a delivery versus payment basis; cash or securities held collectively for clients will be delivered out to the custodian bank or broker-dealer as soon as practicable following the settlement, and Southern Financial Group will receive no additional compensation or remuneration of any kind as a result of the proposed aggregation.

## **Item 13 Review of Accounts**

### **Portfolio Management Services**

**Reviews:** The underlying investments within accounts are continually monitored by each advisor and their support staff. Accounts are reviewed in the context of each client's stated investment objectives and guidelines. More frequent reviews may be triggered by material changes in variables such as the client's individual circumstances, the market, political, or economic environment.

**Reports:** In addition to the monthly statements and confirmations of transactions that clients receive from their broker-dealer, upon client request we provide reports summarizing account performance, balances, and holdings.

### **Financial Planning Services**

**Reviews:** While reviews may occur at different stages depending on the nature and terms of the specific engagement, formal reviews will be conducted for Financial Planning clients upon client request. These reviews will be conducted by each advisor and their support staff.

**Reports:** Financial Planning clients will receive a completed financial plan. Additional reports will be provided upon client request.

Consulting, Tax Preparation, Estate Settlement Services

**Reviews:** While reviews may occur at different stages depending on the nature and terms of the specific engagement, formal reviews will be conducted for clients upon request. Such reviews will be conducted by each advisor and their support staff.

**Reports:** These clients will receive reports as deemed appropriate to complete the services provided.

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

As noted above, Southern Financial Group may receive an economic benefit from Fidelity in the form of support products and services it makes available to Southern Financial Group and other independent investment advisors whose clients maintain accounts at Fidelity. These products and services, how they benefit our firm, and the related conflicts of interest are described in **Item 12 - Brokerage Practices**. The availability of Fidelity's products and services to Southern Financial Group is based solely on our participation in the programs and not in the provision of any particular investment advice. Neither Fidelity nor any other party is paid to refer clients to Southern Financial Group.

In addition, also discussed in **Item 5, Fees and Compensation**, although not a common occurrence our advisors are eligible to receive incentive awards (including prizes such as trips or bonuses) for recommending certain types of insurance policies or other investment products that we recommend. While we endeavor at all times to put the interest of our clients first as part of our fiduciary duty, the possibility of receiving incentive awards creates a conflict of interest, and may affect the judgment of these individuals when making recommendations.

## **Item 15 Custody**

As paying agent for our firm, your independent custodian will directly debit your account(s) for the payment of our advisory fees. This ability to deduct our advisory fees from your accounts causes our firm to exercise limited custody over your funds or securities. We do not have physical custody of any of your funds and/or securities. Your funds and securities will be held with a bank, broker-dealer, or other qualified custodian. You will receive account statements from the qualified custodian(s) holding your funds and securities at least quarterly. The account statements from your custodian(s) will indicate the amount of our advisory fees deducted from your account(s) each billing period. You should carefully review account statements for accuracy.

### **Third Party Transfers**

With respect to clients who have granted our firm the authority to disburse funds to one or more third parties, these disbursements may be affected without additional written consent per transaction. An adviser with authority to conduct such transfers on a client's behalf is deemed to have access to the client's assets, and therefore has custody of the client's assets in any related accounts.

## **Item 16 Investment Discretion**

As described above under **Item 4 - Advisory Business**, Southern Financial Group manages portfolios on a discretionary basis. This means that after an Investment Plan is developed for the client's investment portfolio, Southern Financial Group will execute that plan without specific consent from the client for each transaction. For discretionary accounts, a Limited Power of Attorney ("LPOA") is executed by the client, giving Southern Financial Group the authority to carry out various activities in the account, generally including the following: trade execution; the ability to request checks on behalf of the client; and, the withdrawal of advisory fees directly from the account. Southern Financial Group then directs investment of the client's portfolio using its discretionary authority. The client may limit the terms of the LPOA to the extent consistent with the client's investment advisory agreement with Southern Financial Group and the requirements of the client's custodian. The discretionary relationship is further described in the agreement between Southern Financial Group and the client.

## **Item 17 Voting Client Securities**

As a policy and in accordance with Southern Financial Group's client agreement, Southern Financial Group does not vote proxies related to securities held in client accounts. The custodian of the account will normally provide proxy materials directly to the client. Clients may contact Southern Financial Group with questions relating to proxy procedures and proposals; however, Southern Financial Group generally does not research particular proxy proposals.

## **Item 18 Financial Information**

Southern Financial Group does not require nor solicit prepayment of more than \$1,200 in fees per client, six months or more in advance, and therefore has no disclosure with respect to this item.