



HSBC Securities (USA) Inc.

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This brochure provides information about the qualifications and business practices of HSBC Securities (USA) Inc. (“HSI” or the “Firm”). If you have any questions about the contents of this brochure, please direct your written inquiry to the address listed above, or call (800) 662-3343. 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 HSI is also available on the SEC’s website at **[www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)**.

Please note that the use of the term “registered investment adviser” and description of HSI and/or our associates as “registered” does not imply a certain level of skill or training.

DATED April 11, 2012

**Item 2: Material Changes to Our Part 2A of Form ADV Firm Brochure**

There are no material changes that need to be reported at this time. In the future, this item will discuss only specific material changes that are made to the Brochure and provide clients with a summary of those changes.

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#### **Item 4: Advisory Business**

The Firm currently provides investment advisory services to clients through the recommendation of mutual fund and third party investment manager model wrap fee programs, based upon recommended asset allocation(s). The Firm has entered into an agreement with HSBC Global Asset Management (USA) Inc. (“AMUS”) to perform certain services, for compensation, in the HSBC World Selection Spectrum Account program and HSBC World Selection Offshore Spectrum Account program (the “Spectrum Programs”) and the Managed Portfolio Account program (“MPA Program”), which are wrap fee programs. AMUS is the sponsor of these programs. Clients participating in the Programs receive asset allocation, discretionary investment management, execution, and custodian services for the assets in their accounts. Clients investing in the MPA Program may select individual asset classes in which to invest instead of an asset allocation model. Clients in the programs enter into an Investment Advisory Agreement with AMUS.

It should be noted that the information provided in this Form ADV Part 2A only applies to this business. The Firm also provides investment advisory services outside of the services noted above. The Firm will provide a specific Form ADV Part 2A to those clients.

HSI has been in business as an investment adviser since 2005. The Firm is a Delaware corporation headquartered in New York City, and an indirect, wholly owned subsidiary of HSBC Holdings plc.

#### **Advisory Services**

The Firm provides sales and account review services as well as the expertise and resources to support the operational, information technology, trading, administration, and custody of client assets in the MPA and Spectrum Programs. In addition, we provide other related services, information and processes to support the MPA and Spectrum Programs. We refer clients only to AMUS and therefore a conflict of interest exists in that we recommend only our affiliate and its wrap programs over other third party wrap programs.

We offer a Mutual Fund Asset Allocation Program, as well as a Separately Managed Account and a Unified Managed Account Program. These programs are offered for a fee through HSI’s network of Financial Advisors.

#### *Spectrum Programs*

The World Selection Spectrum Account program is a mutual fund asset allocation service open to U.S. citizens and U.S. residents. The Offshore World Selection Spectrum Account/Program is a mutual fund asset allocation service open to qualified non-resident aliens who reside in certain foreign jurisdictions, as approved by the Firm and in accordance with the local laws of those jurisdictions. The mutual funds made available through the Offshore World Selection Spectrum Account program are not registered in the US.

The World Selection Spectrum/Account Program and Offshore World Selection Spectrum Account/Program are described in greater detail in the Form ADV Part 2A for AMUS.

### *Managed Portfolio Account Program*

The MPA Program is a multi-product, fee-based separately managed account program. Services provided through MPA may be provided through a Separately Managed Account (“SMA”) or Unified Managed Account (“UMA”).

MPA is designed to assist clients, including individuals, pension plans, profit sharing plans, and institutions, in indentifying their investment preferences. Clients receive professional asset management and other services provided by AMUS, third party portfolio managers, mutual funds, and/or exchange traded funds (ETFs), as well as trade execution, custody, and reporting, for a single asset-based “wrap” fee.

The UMA Program may provide, at the client’s election, tax optimization services, at no additional cost, to U.S. persons, for U.S. taxes only. The MPA Program is described in greater detail in the Form ADV Part 2A and Appendix 1 for AMUS (“AMUS Brochure”), which is available upon request.

## **HSI Services to Spectrum and MPA Programs**

### **Sales**

HSI offers the MPA and Spectrum Programs to its clients and is responsible for client contact, communications, suitability and relationship management. AMUS may also send client communications, including periodic account reports and information.

### **Ongoing Client Servicing**

HSI provides certain ongoing client services that includes the following:

1. Periodic portfolio review and consultation with clients through our Financial Advisors.
2. Handling subsequent transactions (additional investments and redemptions).
3. Responding to client inquiries about their accounts and issues pertaining to their accounts.
4. Annual interviews with MPA and Spectrum clients to determine whether there have been any changes in the client’s financial situation or investment objectives, whether the client wishes to impose any reasonable restrictions on the account, or whether the client wishes to modify any existing restrictions.

### **Operational Support**

HSI provides operational support for the MPA and Spectrum Products. The Firm is responsible for account opening, trading, trade servicing, account maintenance, client service, custody of MPA and Spectrum client assets and overall operational support for the Firm’s investment

advisory products including acting as intermediary between the Firm's third party vendors and AMUS.

HSI offers general investment advice to clients utilizing the Spectrum and MPA Programs.

In the Spectrum Programs, clients are typically interviewed by the Financial Advisor that will assist in completing a profile questionnaire (the "Questionnaire"). The Questionnaire is designed to elicit personal, financial and investment information concerning the client's financial circumstances, risk preference and tolerance, liquidity requirements and investment objectives. The Questionnaire information is analyzed through a computerized asset allocation program that generates a recommended investment allocation.

At account opening (and at any time while a client's account is open), the client will be able to select from a variety of funds, in consultation with the Financial Advisor, that have investment objectives and policies corresponding to such client's investment allocation. The client may impose reasonable restrictions on its account by specifying funds that may not be purchased for its account. The client will be provided with an Investment Strategy Proposal and Statement of Investment Selection containing a list of the selected mutual funds and/or exchange traded funds ("ETFs") and will sign the Statement of Investment Selection before the investments are purchased. Assets in the Spectrum Program can be invested in ETFs and shares of open-end and closed end-investment companies, some of which may be pay fees to AMUS or another HSI affiliate for investment management or other services.

After the account is established, AMUS will have investment discretion, in accordance with the selected investment strategy. However, the client can initiate investment changes within their account with the assistance and/or guidance of their HSI Financial Advisor. Please refer to the AMUS Form ADV Part 2A for additional information on AMUS's services in the Spectrum Programs.

In the MPA Program, the client, in consultation with their Financial Advisor, may use the MPA Client Profile Questionnaire or other means at the Financial Advisor's disposal to determine the client's risk tolerance and investment preferences. As a result of this consultative process, the Financial Advisor prepares an Investment Policy Statement ("IPS") for the client's MPA investment portfolio. The IPS will contain a recommended overall asset allocation target which the client may adjust within certain parameters. Subject to client approval, client assets may be invested in accordance with a mix of investment strategies using third party investment advisory firms or in a single investment strategy. The client may impose reasonable restrictions on specific investments, which will be reflected in the IPS, and the client will confirm its asset allocation in the IPS.

The Firm's Financial Advisor assigned to the account will consult with the client periodically, but no less than annually, to determine if there have been any changes to the client's investment profile or financial condition. The client and their Financial Advisor will determine whether any changes should be made to the IPS, asset allocation, risk tolerance, or other factors pertaining to the continued suitability of MPA and the investments available through the MPA. Clients are also encouraged to contact their Financial Advisor promptly in the event of any material changes

to the information they have provided, or any other changes in their financial circumstances or investment goals that would affect the management of their account.

Please consult the AMUS Brochure for additional information on services provided in the MPA Account Program.

As described above, HSI offers the MPA and Spectrum Programs which are considered wrap fee programs. The Firm does not offer any other type of advisory services for a fee.

### **Assets under Management**

As of December 31, 2011, HSI managed approximately \$5.9 billion in assets under management.

For the Spectrum and MPA program HSI manages assets only on a non-discretionary basis. As of December 31, 2011, the amount of assets managed for the MPA and Spectrum programs was approximately \$1.7 billion.

Discretionary asset management of the MPA and Spectrum Programs is handled by third party money managers, including the Firm's affiliate, AMUS.

### **Item 5: Fees and Compensation**

Fees for the MPA and the Spectrum Programs are generally charged and collected in accordance with the AMUS Investment Advisory Agreement provided to clients. Fees for the programs are described in greater detail in the in the Form ADV Part 2A for AMUS. In addition fee information is also contained in Form ADV Part 2 A, Appendix 1 for AMUS ("the AMUS Brochure"). Such fees are generally negotiable.

### **MPA Program**

Fees will be paid quarterly in advance. Fees will be a percentage of assets in the account based on assets under management at the beginning of the quarter. A portion of the fees (on an annual rate ranging from 0.25% to 0.75%) will be paid quarterly in advance to the investment managers selected to manage the client's account. The client will pay its pro rata share of the fees and expenses of any funds or ETFs held in its account, and the MPA Program fee will be assessed on shares of funds and ETFs held in the client's account.

Fees for each new or terminated account will be prorated for the appropriate number of days in the billing period. New client accounts will be charged a fee in advance based on the inception value of the account through the end of the first quarter under management. Terminated accounts will receive a rebate of fees charged in advance and not earned based on the prorated fee that was charged for the balance of the quarter. In addition, contributions in excess of \$25,000 cash or equivalent value of "in kind" securities will be charged an additional fee at the time the contribution is made to the portfolio pro-rated through the end of the quarter. Withdrawals of cash or equivalent market value of "in kind" securities in excess of \$25,000 will generate a fee refund pro-rated to the end of the quarter.

The standard annual fees rates for the MPA Program range from .95 percent to 2.5 percent.

On a quarterly basis, fees are debited from client. A portion of these fees are ultimately paid to HSI, AMUS, the third party service providers and third party money managers.

In the MPA Program, the client will pay a single asset-based fee for advisory services provided by HSI and AMUS as well as custody, reporting, securities execution through HSI, and related brokerage services.

### **Spectrum Program**

Spectrum Program fees are paid in arrears. The fees payable for any calendar quarter will be based on the average daily account asset value during the prior calendar quarter and the annual fee rate(s) set forth in the following schedule, subject to a minimum fee. Minimum fees for accounts are based on minimum account size. The client will pay its pro rata share of the fees and expenses of any funds or ETFs held in its account, and the Spectrum Program fee will be assessed on shares of funds and ETFs held in the client's account. The Standard Fee Schedule for the Spectrum Program is as follows:

<u>Average Assets</u>	<u>Annual Rate</u>	<u>Minimum Fee</u>
First \$250,000	1.50%, plus	\$375.00
Next \$250,000	1.00%, plus	
Assets in excess of \$500,000	0.50%	

AMUS reserves the right to reduce or waive the minimum fee at any time. Fees for the Spectrum Program are described in greater detail in the Form ADV Part 2A for AMUS.

On a quarterly basis, fees are debited from client accounts. A portion of these fees are ultimately paid to HSI, AMUS and the third party service provider.

The Spectrum Program fee covers advisory services provided by HSI and AMUS as well as transaction costs for trades executed through HSI, custody and reporting.

### **General Fee Information**

AMUS reserves the right, without notice, to pass on to the client, transaction charges or commissions resulting from trades effected through or with broker-dealers other than those affiliated with AMUS for mark-ups or mark-downs by such other broker-dealers. The fee does not cover wire fees, bank charges, IRA fees, and fees and expenses associated with investments in mutual funds, ETFs or other investment companies.

The funds made available through the MPA and Spectrum Programs include both third party funds and funds advised by AMUS and its affiliates. Assets invested in mutual funds, ETFs or other investment companies also may be subject to 12b-1 fees, shareholder servicing fees, and other expenses, some or all which may be paid to HSI or its affiliates. In addition, MPA



Program trades may incur other fees and charges not included in the MPA account fee, including markups, markdowns, ticket charges, market charges and SEC charges. The Program fee will be offset for any fund fees paid to AMUS or an affiliate when such offset is required by applicable law.

Both the Spectrum and MPA Programs may cost clients more or less than purchasing such services separately depending on the frequency of trading in the client's accounts, commissions charged at other broker-dealers for similar products, fees charged for like services by other broker-dealers, and other factors.

### **Commissionable Securities Sales**

HSI is also registered as a broker-dealer. As a registered investment adviser, we do not provide investment advisory advice outside of the MPA and Spectrum Programs. However, as a registered broker-dealer, HSI sells securities for a commission outside of the Programs. HSI may receive 12b-1 (distribution) and/or shareholder servicing fees from the sale of mutual funds in the Programs. Clients should be aware that the practice of accepting these fees presents a conflict of interest and gives the Firm and/or our Financial Advisors an incentive to recommend investment products based on the compensation received, rather than on the client's needs.

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

The Firm does not charge performance fees to our clients for this program.

### **Item 7: Types of Clients and Account Requirements**

HSI services the following types of clients:  
Individuals and High Net Worth Individuals;  
Trusts, Estates or Charitable Organizations;  
Pension and Profit Sharing Plans;  
Corporations, Limited Liability Companies and/or other business types

AMUS requires a minimum account opening balance of \$250,000 for the MPA Program and \$25,000 for the Spectrum Program. The Firm reserves the right to decrease the minimum account size if deemed necessary.

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

HSI does not use specific methods of analysis or investment strategies in the MPA and Spectrum Program. The methods of analysis and investment strategies used by AMUS in managing assets through the MPA and Spectrum Program are as follows:

#### **Methods of Analysis for the MPA Program**

AMUS, through its Multimanager division (referred to as "Multimanager"), evaluates upon both quantitative (e.g., investment performance returns, rankings, tracking error, etc.) and qualitative

(e.g., firm, people, investment strategy and process, idea generation, portfolio construction, etc.) factors to recommend the asset managers, and mutual funds available through MPA. As part of the qualitative review, Multimanager may utilize firm and strategy questionnaires, review benchmark relative and peer performance and conduct manager interviews and calls.

Multimanager seeks to identify managers that it believes will deliver consistent risk-adjusted returns going forward over a market cycle. Multimanager also conducts ongoing reviews of the MPA managers through evaluation of key factors including personnel, organizational changes and investment performance. Style analytics, attribution and periodic performance comparisons against representative benchmarks and peers are used as part of the monitoring process.

### **Methods of Analysis for the Spectrum Program**

In selecting mutual funds for inclusion in the Spectrum Program, Multimanager uses a fundamental research approach that examines both quantitative (e.g., investment performance returns, rankings, diversification and turnover) and qualitative (e.g., investment strategy and process, reputation, stability, and employee compensation arrangements) aspects of the funds and their managers. Once selected, such funds and managers will be monitored by Multimanager on a continuous basis.

More information about Multimanager role and AMUS's role in the selection and monitoring of mutual funds and third party money managers can be found in the Form ADV Part 2A for AMUS and the AMUS Brochure.

### **Risks**

Investing in securities involves risk of loss that clients should be prepared to bear. While the stock market may increase in value and your account(s) could enjoy a gain, it is also possible that the stock market may decrease in value and your account(s) could suffer a loss. It is important that you understand the risks associated with investing in the stock market, are appropriately diversified in your investments, and ask us any questions you may have. Please also refer to the AMUS Form ADV Part 2A and AMUS Brochure in addition to the prospectuses for funds offered in the programs for additional descriptions of risks.

Clients may elect to have their idle cash balances swept into money market funds including funds that are managed by our affiliate, AMUS, and for which AMUS receives advisory fees. Clients will pay these fees as well as their Program fee as permissible by law.

### **Item 9: Disciplinary Information**

In the past, we have entered into certain settlements with our regulators and other third parties and have been the subject of adverse legal and disciplinary events. Below are summaries of certain events that may be material to your decision of whether to retain us for as an investment adviser. You may find other information on our Form ADV Part 1, available at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

The Federal Reserve Bank of Chicago reviewed and assessed the effectiveness of HSBC North America Holdings, Inc.'s ("HNAH") complex-wide Corporate Governance and Compliance Risk Management practices, policies, and internal controls, and identified deficiencies. HNAH entered into a consent cease and desist order on October 4, 2010 and agreed to take affirmative action to strengthen HNAH's corporate governance and compliance risk management practices, policies, and internal controls.

FINRA alleged that during the period from May 31, 2006 through February 28, 2008, except as otherwise noted, HSI violated certain NASD, FINRA, and MSRB rules by (1) making negligent misrepresentations and omissions of material facts to clients concerning the safety and liquidity of Auction Rate Securities ("ARS"); (2) using advertising and marketing materials that were not fair and balanced and did not provide a sound basis for evaluating the facts about purchasing ARS; (3) selling restricted, and therefore unsuitable, ARS to certain non-qualified clients; (4) failing to retain certain emails from May 2004 to April 2009, and failing to retain certain internal instant messages from February 2007 to September 2008; and (5) failing to maintain adequate supervisory procedures concerning its sales and marketing activities regarding ARS and its retention of certain emails and instant messages.

The matter was finalized by Acceptance, Waiver and Consent ("AWC") on April 22, 2010. HSI was censured, paid a fine of \$1.5 million, and made repurchase offers to certain eligible investors. In determining the sanctions in this matter, FINRA took into account HSI's voluntary repurchase of ARS from its clients in 2008. As of July 2008, HSI repurchased more than ninety percent of its then current clients' ARS holdings and in October 2008 offered to repurchase all of the remaining ARS held in those clients' HSBC Securities accounts.

FINRA alleged that HSI violated NASD Rules 2110 and 3010. During the period January 2004 through June 2006, clients who maintained escrow accounts with the firm's bank affiliate allegedly were charged commissions for fixed income securities trades executed by the firm on their behalf, which were higher than the commissions they were charged in the past and in certain instances, higher than industry standards. FINRA alleged that the firm failed to take adequate steps to assess the fairness of the commissions; lacked adequate written guidelines for mark-ups and commissions on trades for fixed income products, and also failed to establish and maintain adequate procedures to monitor the appropriateness of commissions charged these clients in that the firm failed to (A) establish adequate written guidelines for mark-ups and commissions on fixed income products; (B) give adequate guidance in reference to determining what is a fair mark-up or commission on fixed income products; (C) include trades executed for clients in branch examination reviews; and (D) established reasonable procedures for monitoring fixed income security mark-ups and commissions.

The matter was finalized by Acceptance, Waiver and Consent ("AWC") on May 14, 2008. HSI was censured and paid a fine of \$200,000.

On May 20, 2010, the Firm submitted a letter of Acceptance, Waiver and Consent to FINRA in which, without admitting or denying guilt, the Firm consented to findings that it: (1) failed to

establish and maintain a supervisory system and written procedures regarding the sale of collateralized mortgage obligations (“CMOs”) to clients that were reasonably designed to achieve compliance with applicable securities laws and regulations and with FINRA rules; (2) failed to establish and maintain a system of written procedures reasonably designed to supervise whether the sales of CMOs were suitable for its clients and the attendant risks of the products were fully explained whenever a registered representative recommended a CMO investment; (3) failed to offer certain educational materials to certain clients before the sale of a CMO and (4) recommended and sold inverse floater CMOs to clients for whom such products were unsuitable. HSI consented to a sanction of a censure and a \$375,000 fine. FINRA acknowledged that, independent of the imposed sanction, affected clients received full restitution from the firm.

A Regulatory Action was initiated by the New York Stock Exchange Division of Enforcement for a Principal Sanction of Civil and Administrative Penalties and Fine of Censure and Undertaking. The New York Stock Exchange Division of Enforcement initiated this on or about July 27, 2007 against HSBC Securities (USA) Inc. (“HSBC”). The docket and case number was NYSE Hearing Board Decision 07-150. The principal product type claimed was Callable Range Accrual Certificates of Deposit.

The New York Stock Exchange Division of Enforcement alleged that HSI violated: (1) NYSE Rule 476(a)(6) for engaging in conduct inconsistent with just and equitable principles of trade by: (a) recommending and selling LIBOR CDs to clients for whom such products were unsuitable; (b) failing to accurately advise clients about the risks associated with the LIBOR CDs; and/or (c) making material misrepresentations regarding certain material features of the LIBOR CDs and/or the manner in which the products were likely to perform; (2) NYSE Rule 401(a) by failing to adhere to principles of good business practice by recommending and selling the LIBOR CD products to clients for whom they were not suitable; and (3) NYSE Rule 342(a) and (b) by: (a) failing to establish and maintain appropriate procedures to reasonably supervise whether the sale of callable LIBOR CDs were suitable for its clients, and (b) failing to adequately supervise its personnel in order to reasonably detect and prevent misrepresentations regarding material features of LIBOR CDs, and/or the manner in which they were likely to perform.

On October 8, 2007, HSI agreed to a censure and fine in the amount of \$500,000 and an undertaking requiring the firm to review the purchases of the outstanding LIBOR CDs (that existed as of June 1, 2007) and offer a remediation plan, reviewed and approved by NYSE enforcement, in accordance with the terms of the stipulation and consent to penalty.

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

The principal business of our firm is that of a full service broker-dealer. We engage in a full range of primary and secondary securities activity in the U.S. and international markets, including acting as a primary dealer in corporate bonds, U.S. and international equities, and as a broker in futures and options. We are registered with the Securities and Exchange Commission, the Financial Industry Regulatory Authority, and various other regulatory bodies. Our firm acts as an introducing broker in respect to the Spectrum and MPA Programs, using the clearing and

execution facilities of our third party clearing agent, Pershing LLC, in respect of all securities transactions executed within a client's account, subject in all cases to best execution obligations and applicable law. Some of our management persons are registered, or have an application pending to register, as a registered representative of HSI.

HSI is registered as a futures commission merchant, and some of our management persons are associated persons of this entity.

### **Material Relationships with Related Persons**

HSI and/or our management persons have a material relationship with the following related person(s) as follows:

AMUS provides investment advice to registered investment companies and other institutions. AMUS is a wholly-owned subsidiary of HSBC Bank USA, N.A ("HSBC Bank"). AMUS acts as the general partner or manager to certain registered investment companies, some of which may be included as investments in the Managed Portfolio Account and Spectrum Account programs. We may offer to our non-advisory clients, shares of investment companies to which AMUS serves as investment adviser. HSI has policies and procedures that are reasonably designed to mitigate conflicts of interests and comply with the regulatory requirements in selling securities including mutual funds.

Our investment banking division provides investment banking services to the HSBC Group's major corporate clients. Financial Advisor representatives of our firm may conduct business on the premises of HSBC Bank.

In addition, Financial Advisors of the Company may be located in branches of HSBC Bank and clients of HSBC Bank, may be investment advisory clients. Clients are informed both verbally and in writing that securities products are not a deposit or other obligation of the bank or any of its affiliates; not FDIC insured or insured by any federal government agency of the United States; not guaranteed by the bank or any of its affiliates; and are subject to investment risk, including possible loss of principal invested.

HSBC Bank is a national bank organized and existing under the laws of the United States and a member of the Federal Reserve. HSBC Bank, with which we have entered into agreements, provides certain office space and certain administrative service such as payroll and benefits processing to HSI. Certain employees and officers of HSI are officers of HSBC Bank and report into the bank's Fiduciary Committee.

Our firm and representatives are also licensed insurance agents with HSBC Insurance Agency USA, Inc. and HSI. In California, HSI conducts insurance business as HSBC Securities Insurance Services. In this capacity, we may offer advisory clients of our firm insurance products for which we receive compensation. HSI has policies and procedures that are reasonably designed to mitigate conflicts of interests and comply with the regulatory requirements in selling insurance products.

HSBC's Investment Banking Group may offer sponsorship or syndication of limited partnerships. However this is not offered through the Firm's investment advisory business or clients.

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

Our firm has adopted a Code of Ethics and Staff Dealing Policies and Procedures that governs employee personal securities transactions ("Code of Ethics"), prohibits trading on inside information, and requires employees to comply with all relevant securities laws. The Code of Ethics reflects our belief in the absolute necessity to conduct business at the highest ethical and professional levels. Our firm requires all personnel to report their personal securities accounts to the Compliance Department and requires pre-approval of personal trades in accordance with the Firm's policies and procedures. Firm personnel are required to submit an annual acknowledgement and certification attesting to their compliance and reporting requirements as well as compliance with all other aspects of our Code of Ethics. The Code of Ethics encourages internal reporting and protects employees who report violations from retaliation. Any violations of the code must be reported to the Chief Compliance Officer or other designated personnel. A copy of our firm's Code of Ethics will be furnished upon request.

Our firm and its employees may buy or sell securities for its or their own account, including the same securities that it recommends to clients, and the same or different times as client trades on those securities, in accordance with the Code of Ethics.

#### **Item 12: Brokerage Practices**

For the MPA and Spectrum Programs, the firm generally does not select other broker-dealers to execute trades in the Programs, as the Program fees clients pay cover only those trades executed by HSI. HSI does not participate in soft dollar business arrangements and receives no products, research, or services that the Company would consider a factor in recommending a particular broker dealer.

The firm does not use client brokerage to compensate or otherwise reward brokers for client referrals. The Firm does not engage in direct brokerage transactions.

We or managers may purchase or sell the same security for a number of clients at the same time. Because of market fluctuations, the prices obtained on such transactions within a single day may vary substantially. In such a case, to more fairly allocate those market fluctuations among clients, transactions in the same security for a number of clients may be "batched". In these circumstances, the confirmations and statements for each client's transaction may show that the transaction was effected at a price equal to the average execution price for all transactions in that security on that day. However, since there are no separate transaction costs (no commissions) for trades executed by HSI in the Programs there is no transaction cost benefit.

### **Item 13: Review of Accounts or Financial Plans**

For the MPA and Spectrum Programs, annual account reviews are conducted by a client's Financial Advisor in order to determine if the client's profile remains current and accurate and that the performance of the account is consistent with the recommended asset allocation model. The assigned Financial Advisor is responsible for annually reviewing each assigned client account, including the account's financial proposal and investment manager selections. The client's account activity must be reviewed to determine if the asset allocation assigned to the account in the initial financial proposal continues to be suitable, that any client mandates and restrictions continue to be met, and if the client's financial situation and investment objectives must be updated or re-confirmed.

This review is done with the client if possible, and based on the documented investment objectives and strategy of the account.

A Financial Advisor may review client accounts more frequently than described above. Among the factors that may trigger an off-cycle review is a change in the client's investment profile, a change in major market or economic events, the client's life events, requests by the client, etc.

We do not provide written reports to clients, unless asked to do so. HSI representatives provide verbal reports to clients at least annually. Our clearing agent, Pershing® LLC, ("Pershing") provides quarterly reports to our clients.

For MPA and Spectrum, quarterly performance reports will be provided by AMUS for the investment portfolio of the client's account. These quarterly reports are generated by third party sources.

Additional information on AMUS's role regarding the review of MPA and Spectrum accounts are described in greater detail in the Form ADV Part 2A for AMUS and the AMUS Brochure.

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

HSI makes a special payment to representatives in the first fiscal year that their clients are in MPA or Spectrum. Clients will not pay this fee directly. In addition, once the account is substantially funded (90% of the targeted funding level), investment adviser representatives receive a one-time credit as follows:

Representatives with less than three years of service receive a credit equal to the first year's anticipated net revenue, up to and capped at 1.25% of the client's initial deposit in the advisory account.

Representatives with three years of service or more at our firm receive a credit equal to the first year's anticipated net revenue, up to and capped at 0.50% of the client's initial deposit in the advisory account.

This additional compensation applies to (i) mutual fund wrap accounts – subject to a \$100,000 minimum initial deposit, and (ii) MPA/SMA and UMA accounts – subject to a \$500,000 minimum initial deposit.

We do not pay referral fees (non-commission based) to independent solicitors (non-registered representatives) for the referral of their clients to our Firm.

#### **Item 15: Custody**

For the MPA and Spectrum program, clients will receive account statements from Pershing, LLC and should carefully review those statements.

#### **Item 16: Investment Discretion**

For the MPA and Spectrum program, HSI does not have discretionary authority to manage securities accounts. Our clients sign a discretionary investment advisory agreement with AMUS for the management of their account.

#### **Item 17: Voting Client Securities**

We do not and will not accept the proxy authority to vote client securities. Additional information on AMUS role regarding proxy voting is described in greater detail in the Form ADV Part 2A for AMUS and the AMUS Brochure.

#### **Item 18: Financial Information**

We do not require nor do we solicit prepayment of more than \$1,200 in fees per *client*, six months or more in advance. Therefore we have not included a balance sheet for our most recent fiscal year. There are no financial conditions to likely impair our ability to meet contractual obligations to our clients, and we have not been the subject of a bankruptcy petition at any time during the past ten years.