

## Item 1. Cover Page



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### **HTK Advisory Series Program Disclosure Brochure** (Part 2A Appendix 1 of Form ADV)

#### **The HTK Advisory Series Programs**

1. HTK Professional Asset Management Program (PAM)
2. HTK Fund Select Account (FSA)
3. HTK Unified Managed Account (UMA)

This wrap fee program brochure provides information about the qualifications and business practices of Hornor, Townsend & Kent, Inc. ("HTK"). If you have any questions about the contents of this brochure, please contact us at (800) 873-7637 or at [clientinquiries.htkria@htk.com](mailto:clientinquiries.htkria@htk.com). 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 HTK also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)

**March 2012**

## Item 2. Material Changes

Under the SEC's rules we are required to update this Brochure whenever there is a material change to our policies, practices, or conflicts of interest or other information presented. Since our last Form ADV was filed, there have been no material changes to this brochure.

### Item 3. Table of Contents

Item 1. Cover Page .....	1
Item 2. Material Changes .....	2
Item 4. Services, Fees and Compensation.....	4
Introduction .....	4
Types of Advisory Services.....	4
The HTK Advisory Series Programs.....	4
Investment Profile Information .....	4
Program Descriptions .....	6
Fees and Compensation .....	7
Cost for Clients.....	8
Other Fees and Expenses.....	8
Investments in Funds.....	9
Compensation for Recommending the Wrap Fee Program .....	9
Item 5. Account Requirements and Types of Clients .....	9
Item 6. Portfolio Manager Selection and Evaluation .....	9
Portfolio Manager Selection.....	9
Investment Strategies.....	10
Risk of Loss.....	11
Performance Based Fees and Side-by-Side Management.....	11
Voting Client Securities.....	11
Item 7. Client Information Provided To Portfolio Managers.....	12
Item 8. Client Contact with Portfolio Managers.....	12
Item 9. Additional Information.....	12
Disciplinary Information .....	12
Other Financial Industry Activities and Affiliations .....	13
Code of Ethics, Participation or Interest in Client Transactions and Personal Trading .....	14
Review of Accounts .....	14
Client Reports .....	15
Client Referrals and Other Compensation.....	15
Financial Information.....	16
Customer Privacy Notice .....	17

## Item 4. Services, Fees and Compensation

### **Introduction**

Hornor, Townsend & Kent, Inc. ("HTK") is registered as an investment advisor under the Investment Advisers Act of 1940 and as a broker-dealer under the Securities Exchange Act of 1934. HTK is also a registered broker/dealer with the Financial Industry Regulatory Authority, Inc. ("FINRA") and a member of SIPC. HTK has been registered with the SEC and providing investment advisory services to clients since February 25, 1999. As of 12/31/2011, HTK managed \$755,276,216 of client assets. \$699,337,443 was managed on a non-discretionary basis and \$55,938,772 was managed on a discretionary basis.

As a registered adviser, HTK provides advisory services to clients by and through our investment adviser representatives ("IARs"). For more information about the IAR providing advisory services, the Client should refer to the Brochure Supplement for the IAR. The Brochure Supplement is a separate document that is provided by the IAR along with this Brochure before or at the time the Client engages the IAR. If the Client did not receive a Brochure Supplement for the IAR, the Client should contact the IAR or HTK at [clientinquiries.htkria@htk.com](mailto:clientinquiries.htkria@htk.com).

### **Types of Advisory Services**

HTK provides a wide range of advisory services and programs, including wrap programs, mutual fund asset allocation programs, advisory programs offered by third party investment advisor firms, financial planning services, and other advisory services. The Client should contact the IAR for a copy of the program brochure that describes such program or go to [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). ***This brochure provides clients and prospective clients with information about the HTK Advisory Series Programs.***

### **The HTK Advisory Series Programs**

Through the HTK Advisory Series programs, IARs may select those programs that they believe are best suited to meet each Client's individual needs and circumstances. Clients are advised and should understand that there is no guarantee, either stated or implied, that the Client's investment goals or objectives will actually be achieved.

For the HTK Advisory Series programs, HTK has entered into an agreement with Envestnet, Inc., ("Envestnet" and/or "Program Provider"), a provider of wealth management software and services to financial advisors. Via this agreement, Envestnet provides technology, operational and administrative support services to HTK in connection with the Advisory Series program accounts. Envestnet may assist HTK with a variety of account processing and maintenance duties, including client account initiation and set up, client account trading and processing, custodial reconciliation, and the computation and preparation of client reports. HTK and Envestnet are not affiliated companies.

### **Investment Profile Information**

The HTK Advisory Series programs begin with the completion of an Investor Profile Questionnaire during an initial consultation with your IAR to determine your financial situation. This consultation includes a review of the Client's investment experience, risk tolerance, time horizon, investment goals, and special interests or concerns. Using this risk profile assessment, your IAR will make an initial determination of the appropriateness of using the HTK Advisory Series Programs.

An Investment Strategy Report ("ISR") is prepared, which recommends a portfolio asset allocation and investment holdings consistent with your risk profile assessment. Using the ISR as a guide, your portfolio is

designed by selecting appropriate investments to complete the portfolio model. The securities recommended and/or purchased vary, depending on the selected Program. The advisory services that may be offered to Clients include the following:

- Reviewing the Client's investment objectives and goals as outlined by the Client
- Recommending asset allocation strategies to help meet the financial goals of the Client
- Preparing a personalized Investment Strategy Report (ISR) which details an asset allocation strategy
- Recommending investment vehicles to help meet a client's goals and objectives
- Providing execution of securities transactions in equities, bonds, mutual funds, unit investment trusts, certificates of deposit and other investment vehicles through Pershing, LLC, HTK's clearing firm
- Reporting progress toward the Client's investment goals
- Recommending periodic rebalancing and/or changes that may be needed to client accounts
- Providing confirmations and account statements of all activity executed in HTK Advisory Series Program accounts

Through the HTK Advisory Series programs, Clients have access to a wide range of securities products, including, but not limited to, equities; municipal, corporate and government fixed income securities; exchanged traded funds ("ETFs"); Real Estate Investment Trusts ("REITs"); options; and unit investment trusts ("UITs"), as well as other products and services, including asset allocation services. HTK will provide Client, by and through an IAR, upon acceptance of Client's account, the above referenced investment advisory services. In general, the IAR is responsible for delivering advisory services and Clients generally deal with matters relating to their accounts by contacting the IAR directly.

**Note:** The investment recommendations and advice offered by HTK and IARs are not legal or accounting advice. The Client should coordinate and discuss the impact of financial advice with their legal counsel or tax advisor. Neither HTK nor its representatives (unless independent of their relationship with HTK) are qualified to offer legal or tax advice.

The IAR plays a crucial role in assisting Clients in matching their individual financial objectives, risk tolerance and investment time horizons to the proper investment advisory services. The services provided depend largely on the information provided by the Client. For HTK and the IAR to provide appropriate recommendations to the Client, it is important that the Client provide accurate and complete responses to the questions asked by the IAR. In addition, Clients must inform the IAR and HTK of any changes in the Client's investment objectives, personal circumstances, and any other information, if any, that may affect the Client's overall investment goals.

Clients have the opportunity to impose reasonable restrictions on the securities purchased or the way their account is managed. Any restrictions may adversely affect the risk-reward level of a portfolio. HTK will honor the restrictions absent extraordinary circumstances. The investment restrictions imposed by a Client may have an adverse impact on the amount of risk assumed by the client and may hinder the investment manager's ability to manage the portfolio properly according to the stated objectives of the client.

When opening an advisory account with the deposit of securities or the depositing of additional securities into an existing account Clients should consider the fees or charges the Client has already paid in connection with these securities, such as commissions or front-end sales loads on mutual fund shares. Clients could potentially pay additional charges when depositing securities purchased on a commission basis into an advisory account.

## **Program Descriptions**

There are three Advisory Series Programs offered, varying by investment funding vehicle, account minimums and fee structures, which enable the IAR to provide assistance in selecting the investments and asset allocation for each Client. HTK utilizes Envestnet, to provide many of the services for these Programs.

In some of the Programs, Envestnet serves as a Program Provider and provides primarily operational and administrative services such as performance reports, asset allocation models, website services, client proposals and fee calculation services. In other Programs, Envestnet Portfolio Solutions, Inc., a wholly owned subsidiary of Envestnet, Inc. and a Registered Investment Advisor (“Envestnet Portfolio Solutions” and/or “Portfolio Manager”), serves as the Portfolio Manager and provides discretionary advice on client accounts.

**1. HTK Professional Asset Management Program (“PAM”) –** PAM is an asset management program using mutual funds purchased on a “no load” or a “load waived” basis through Pershing. For the PAM program, Envestnet Portfolio Solutions acts as the portfolio manager and has full authority to supervise and direct the investment of the monies contributed by the Client to the Program Account without prior consultation. HTK and the IAR will not have discretionary investment authority in the PAM Program.

Subject to the limitations described in the Client’s responses to the Investor Profile Questionnaire or other appropriate suitability analysis, Portfolio Manager will select mutual funds to fill the asset allocation model selected by the Client.

The IAR collects certain financial information from the Client, including an investment profile questionnaire and ISR. The IAR assists the Client in selecting the appropriate asset allocation model, based on this information. HTK reviews the Client's objectives and evaluates the suitability of the asset allocation model to ensure consistency with the information provided by the client.

The Portfolio Manager performs account rebalancing automatically when the account’s asset allocation is out of variance by 10% for more than 30 consecutive days.

**2. HTK Fund Select Account Program (FSA) –** FSA is an asset management program utilizing mutual funds purchased on a “no load” or a “load waived” basis through Pershing.

The IAR collects certain financial information from the Client, including an investment profile questionnaire and ISR. Based on the information gathered during the profiling process, the Client and IAR choose an asset allocation strategy and the mutual funds to complete the portfolio allocation. The IAR assists the Client regarding all investment decisions for the FSA Account and the Client agrees to furnish any information that might change the recommended asset allocation model to HTK and the IAR. HTK reviews the Client's objectives and evaluates the suitability of the asset allocation model and securities selected.

In the FSA Program, the Client has the ability to use any mutual fund with which HTK has a selling agreement, so long as the fund can be purchased on a “no load” or a “load waived” basis. The Client may change the investments of the account or the asset allocation model by discussing his or her needs with the IAR and developing a new Investment Strategy Report.

Account rebalancing and/or reallocations are performed by the IAR and Client. At a minimum, the IARs receive alerts quarterly when the portfolio allocation is out of variance. Upon such notice, the IAR together with the Client will review to determine next steps and/or actions needed for the account.

**3. HTK Unified Managed Account Program (UMA) –** UMA is an asset management program utilizing stocks, bonds, mutual funds purchased on a “no load” or a “load waived” basis, ETFs, options and UITs through Pershing.

The IAR collects certain financial information from the Client, including an investment profile questionnaire and ISR. Based on the information gathered during the profiling process, the Client and IAR choose an asset allocation strategy and select the securities to complete the portfolio allocation. The IAR assists the Client regarding all investment decisions for the UMA Account and the Client agrees to furnish any information that might change the recommended asset allocation model to HTK and the IAR.

HTK reviews the Client's objectives and evaluates the suitability of the asset allocation model and securities selected. Account rebalancing and/or reallocations are performed by the IAR and Client. At a minimum, the IARs receive alerts quarterly when the portfolio allocation is out of variance. Upon such notice, the IAR together with the Client will review to determine next steps and/or actions needed for the account.

### **Fees and Compensation**

Since the advisory fees charged by the IAR are negotiable, the fees charged may vary among clients, based upon a number of factors. The factors may include the account activity, the size of the Client's account, the nature of the related services provided, and the length of the advisory relationship with a Client, among other things.

The fees for the HTK Advisory Series programs are billed, quarterly in advance, and debited directly from the Client's account(s). Fees are calculated on the assets in the account and in accordance with the fee schedule agreed upon by the IAR and Client. Pro-rata fees will be assessed in the event the Agreement is executed other than the first day of the new calendar quarter. In the event that the Account is terminated for any reason during a calendar quarter, the client will receive a refund of any unearned fees paid.

The quarterly fee for the Program Account's first quarter will be based upon the average daily balance for the month the Program Account was opened; this fee will be charged in the following month and will apply to the remainder of the quarter, if applicable. All subsequent quarterly fees will be based upon the average daily market value of the Program Account assets in the preceding quarter and will be charged at the beginning of the first full quarter and each quarter thereafter. The fee for the quarter the account is closed will be prorated over the number of days the Program Account was open in that quarter, with an adjustment for the remaining period of the quarter after the Program Account's termination.

Advisory fees are assessed based on the average daily market value of the account as of the previous calendar quarter. Clients must authorize changes to their Program fee in writing.

Below is HTK's standard fee schedule for the Advisory Series Programs – PAM, FSA and UMA. Fees are negotiable, based on account size, family relationships and other factors.

<b>Assets Valued at:</b>	<b>Advisory Fee Range</b>
\$ 0 - \$100,000	1.15% - 1.75%
\$100,001 - \$250,000	1.00% - 1.60%
\$250,001 - \$500,000	0.85% - 1.45%
\$500,001 - \$1,000,000	0.50% - 1.30%
\$1,000,001 - \$2,500,000	0.40% - 1.20%
\$2,500,000 and above	Negotiable

For the PAM Program, HTK receives a portion of the fee Clients pay for advice and monitoring of PAM Accounts. The Program Provider and Portfolio Manager, receives a portion of the fees Clients pay for providing

asset allocation; investment style allocation; mutual fund selection, evaluation, and replacement; periodic rebalancing; and operational support. For the PAM Program, the portion of the advisory fee paid to the Portfolio Manager is .24%

For the FSA and UMA Program, HTK receives a portion of the advisory fee Clients pay for advice, management, and monitoring services provided in connection with these accounts. The Program Provider receives a portion of the client fee for various operational and administrative services, including performance reporting.

**Note:** HTK charges a minimum advisory fee of \$125.00 per quarter (prorated for the number of day's that fall within the quarter and/or billing period). This minimum fee is assessed when the calculated quarterly advisory fee falls below this minimum fee. This fee may be charged on each client account or all accounts in the aggregate if accounts are linked.

The Investment Advisory Agreement may be terminated by either party upon written notice to the other party. If a Program Account is to be liquidated as the result of a termination notice, a reasonable timeframe may be required in order to liquidate assets. Clients will receive a prorated refund of any quarterly Program fees assessed, based upon the number of days remaining in the quarter after the termination date. Subject to the payment of any outstanding fees, proceeds will be payable to the Client within sixty (60) days of liquidation. Termination of the Agreement will not affect the liabilities or obligations of the parties arising from transactions initiated prior to termination.

The death, disability or incompetency of the Client will not terminate or change the terms of the Agreement. In such event, the Client's executor, guardian, attorney-in-fact or other authorized representative may terminate this Agreement by giving written notice to HTK, which notice shall be effective upon HTK's receipt of notice.

### **Cost for Clients**

Because the fees are charged as a single asset-based fee, a Client may pay more or less for advisory services, execution of transactions, custody and reporting than other advisory programs offered by HTK or other investment advisers.

The factors that bear upon the relative costs of any advisory program include, but are not limited, the number of and timing of transactions, types of security purchased or sold, advisory fees, custody charges, administrative charges, research costs, and promotion material costs. These and other factors may affect the cost of obtaining these services separately.

### **Other Fees and Expenses**

The advisory fees noted above include all fees and charges for the services of HTK, the Program Provider, the Portfolio Manager, and the IAR. The advisory fee does not include the account fees imposed by Pershing, HTK's clearing firm and custodian. Clients should also understand that when opening an account with HTK there may be additional fees and/or charges imposed by Pershing. These fees and charges may include, custodial, clearing and execution charges, special fees for services rendered to managed accounts, fees assessed to IRA or retirement type accounts, and other miscellaneous charges incurred in the normal course of business.

As a condition of the Program, IARs must pay all of the transaction costs associated with a FSA and/or UMA account, which could influence their recommendation of a Program and/or particular investment. HTK may elect to pay some or all of the ticket charges for transactions in a Client's account on an IAR's behalf. Clients do not pay any transactions charges in HTK Advisory Series program accounts.



### **Investments in Funds**

Clients should be aware that when assets are invested in shares of mutual funds, ETFs, closed-end funds, UITs, or other pooled investment vehicles, the Client will pay both the direct management fees to HTK for its services in connection with these investments and, indirectly, the Client's pro-rata share of any internal management fees or expenses related to owning those investments. The Client may be able to invest directly in these securities without incurring the fees charged by HTK. An explanation of the fees and expenses associated with these investments, along with other important information, is contained in the prospectus, disclosures and/or other information provided by the investment provider to Clients.

In addition, there may be tax consequences for fund share redemptions made by or on behalf of Clients, as well as deferred sales charges or redemption fees.

### **Compensation for Recommending the Wrap Fee Program**

HTK and the IAR receive compensation as a result recommending the Client's participation in the Program. The amount of this compensation may be more or less than what the client would pay if the Client participated in other HTK programs or paid separately for investment advice, brokerage, and other services. Therefore, there may be a financial incentive to recommend an Advisory Series program over other programs or services offered by HTK.

## **Item 5. Account Requirements and Types of Clients**

Generally, HTK provides advisory services to individuals, pension or profit sharing plans, trusts, estates, charitable organizations, corporations or other business entities. For PAM accounts, the minimum account size is generally \$50,000.00. For FSA and UMA accounts, the minimum account size is generally \$75,000.00. These minimum requirements may be waived for certain accounts. Clients retain all indicia of ownership of the cash and securities in the account. HTK reserves the right to terminate the client agreement at any time portfolio assets are less than \$25,000

## **Item 6. Portfolio Manager Selection and Evaluation**

### **Portfolio Manager Selection**

For the PAM program, Clients should refer to the Portfolio Manager's Disclosure Brochure to obtain more detailed information regarding the criteria used for selecting, recommending and replacing portfolio mutual funds managers for this program. In addition, the disclosure documents also provide Clients with detailed information regarding the process for how securities are selected in this program. The securities purchased and held in the PAM program are limited to mutual funds and these are the only securities allowed for this program.

For the FSA and UMA programs, the Client appoints the IAR to act as the portfolio manager for the Client's account. The IAR will consult with and obtain the Client's approval prior to the purchase or sale of any security in the account.

Securities recommendations made to clients are based upon the investment objectives and needs of the Client and executed in a non-discretionary capacity for Clients participating in the FSA and UMA programs.

For the FSA program, the securities recommended and held are limited to mutual funds and these are the only securities allowed for this program. For the UMA program, available investments include equity securities; fixed income securities UITs; REITs; open-end and closed-end mutual funds; and ETFs.

HTK reviews the services performed by the IAR to ensure the services provided are in agreement with program parameters and the policies and procedures of HTK. If the IAR appointed by the Client ceases to be available in the Program, HTK will notify the Client in writing, and, if approved by the Client, appoint another IAR to service the Account in accordance with the profile and other information used to manage the account. The Client will also be provided the opportunity to choose a different IAR or to terminate the Program if they so choose.

### **Investment Strategies**

Our Advisors may use various methods to determine an appropriate investment strategy for your portfolio. During your initial and subsequent meetings with your Advisor, they will discuss the methods they used. The analysis performed may include the following:

**Technical Analysis** - This type of analysis utilizes statistics to determine trends in security prices. Technical analysis tends to focus on factors such as trading volume, demand, and security price fluctuations. This type of analysis is also commonly referred to as chart analysis due to the fact that this analysis tends to review various historical charts and graphs.

**Fundamental Analysis** - This type of analysis concentrates on earnings, a company's financial statements, and the quality of a company's management. These quantitative factors are then used to attempt to determine the financial strength of a company.

**Asset Allocation** - Asset allocation investment strategies attempt to optimize the risk and reward of your portfolio by investing among several asset classes.

**Concentrated Investment Strategies** - Certain investment strategies may be concentrated in a specific sector or industry. If you invest in a portfolio or strategy that is made up of a concentrated position, sector or industry, your portfolio will be more likely to sharply increase or decrease in value with changes in the markets. Concentrated strategies are more volatile because the risk associated with each company represents a large percentage of your overall portfolio value.

These methods of securities analysis serve as a basis for the investment advice given to clients which includes, but not limited to, long term purchases (securities held at least a year); short term purchases (securities sold within a year); and option writing (primarily, including covered options strategies).

For the most part, this analysis is provided via tools provided by HTK and/or the Program Provider. In addition, the services of other unaffiliated parties may be used to perform investment research which may include a screening and evaluation of investment firms, mutual funds, index funds, exchange traded funds and other managed or unmanaged investment vehicles.

HTK and IARs may also use third-party research to assist in the development of asset allocation models, investment research, security opinions, valuations, analysis and investment manager/management due diligence. An IAR may develop asset allocation models or use others from outside independent sources if approved by HTK. Each IAR may develop his or her own methods of security and portfolio analysis, sources of information, and investment strategies to assist in the delivery of investment advice to Clients. As such, recommendations by IARs and advice provided may differ.

## **Risk of Loss**

Investing in the securities market involves investment risk including the possible loss of the principal amount invested. Neither HTK nor our IARs represent, guarantee or imply that services or methods of analysis used can or will predict future results, successfully identify market tops or bottoms, or insulate the clients from losses.

Some of the common risks you should consider prior to investing include, but are not limited to:

**Market risks** - The prices of, and the income generated by, the common stocks, bonds, and other securities you own may decline in response to certain events taking place around the world, including those directly involving the issuers; conditions affecting the general economy; overall market changes; local, regional, or global political, social, or economic instability; governmental or governmental agency responses to economic conditions; and currency, interest rate, and commodity price fluctuations.

**Interest rate risks** - The prices of, and the income generated by, most debt and equity securities may be affected by changing interest rates and by changes in the effective maturities and credit ratings of these securities. For example, the prices of debt securities generally will decline when interest rates rise and will increase when interest rates fall. In addition, falling interest rates may cause an issuer to redeem, "call," or refinance a security before its stated maturity date, which may result in having to reinvest the proceeds in lower-yielding securities.

**Credit risks** - Debt securities are also subject to credit risk, which is the possibility that the credit strength of an issuer will weaken and/or an issuer of a debt security will fail to make timely payments of principal or interest and the security will go into default.

**Risks of investing outside the U.S.** - Investments in securities issued by entities based outside the United States may be subject to the risks described above to a greater extent.

## **Performance Based Fees and Side-by-Side Management**

HTK Does not charge performance-based fees.

## **Voting Client Securities**

For the FSA and UMA Program accounts, HTK and IARs are expressly precluded from taking any action on behalf of clients, and are not obligated to render any advice to clients, with respect to (a) the voting of proxies solicited by, or with respect to, the issuers of any securities held in the account; or (b) legal proceedings involving securities or other investments presently or previously held in the account, or the issuers thereof, including bankruptcies and class action lawsuits.

Clients receive proxies or other solicitations directly from the custodian or transfer agent. In the event HTK and/or the IAR receives such information, we send, or will cause to be sent, all such proxy and legal proceedings information and documents they receive to the client, to allow the client to take whatever action it deems advisable under the circumstances.

Regarding the PAM program, Clients should refer to the Portfolio Manager's Form ADV Part 2A for complete information on their proxy voting policies. In addition, Clients can also obtain a copy of the Portfolio Manager's proxy voting policies and procedures upon their request.

## Item 7. Client Information Provided To Portfolio Managers

HTK provides initial and updated client information to the Program Provider and Portfolio Manager for Clients participating in the PAM program. In addition, the IAR periodically provides updated client information to the Portfolio Manager in the event there are changes to the Client's financial circumstances, investment objectives and/or any other information used in the management of Client assets. For the Advisory Series programs, IARs also periodically meet with Clients to discuss their account(s), performance, financial situation, investment objectives, etc. If needed, the IAR and Client will complete the documents required to update the information on file used to manage Client assets.

This process ensures the portfolio management services offered by the IAR and HTK continue to be provided in manner consistent with the Client's current financial situation and/or investment objectives.

## Item 8. Client Contact with Portfolio Managers

There are no limits on the Client's ability to contact its IAR or, in the PAM program, to contact Portfolio Manager personnel knowledgeable about the Client's account.

## Item 9. Additional Information

### **Disciplinary Information**

On 12/5/2000, Florida's Division of Securities contended that HTK operated branch offices in the state without benefit of registration. Without admitting or denying the allegations, HTK agreed with the state of Florida and paid a fine of \$25,000.00 on 8/2/2002. In addition, HTK agreed to notify Florida before conducting business from "new" locations in the state.

On 7/6/2005, FINRA (formerly, the National Association of Securities Dealers or "NASD") contended that HTK conducted national and branch sales contests for representatives and managers to promote the sale of selected variable life and annuity producers. Several of those contests included variable products offered by Penn Mutual, HTK's parent company, and those sales were given greater weight than products offered by other companies. HTK offered or awarded various forms of non-cash compensation to the winners of these contest. It was also alleged the firm failed to maintain and preserve all email communications in connection with this activity and did not implement effective policies, procedures and supervisory controls reasonably designed to ensure compliance with applicable rules and regulations. Without admitting or denying the allegations, HTK consented to these findings and described sanctions. As a result, HTK was censured and fined \$325,000.00

On 7/6/2005, the NASD contended that HTK failed to establish written procedures and maintain a supervisory system reasonably designed to detect and prevent late trading in mutual fund transactions. It was also alleged the firm failed preserve certain mutual fund trading records in accordance with SEC and NASD requirements for three years and failed to create records reflecting the time mutual fund orders were received starting in 5/2/2003. Without admitting or denying the allegations, HTK consented to these findings and described sanctions. As a result, HTK was censured and fined \$150,000.00.

On 10/10/2006, the NASD contended that HTK failed to establish written procedures and maintain a supervisory system reasonably designed to ensure compliance with applicable securities laws with regard to the sale of group variable annuity contracts. In addition, HTK failed to properly record these transactions on the

books and records of the firm. Without admitting or denying the allegations, HTK consented to these findings and described sanctions. As a result, HTK was censured and fined \$125,000.00.

On 2/26/2007, the NASD contended that HTK received brokerage commissions as payment for certain mutual fund companies' participation in the marketing programs of the firm. These arrangements were deemed to not comply with applicable securities laws. In addition, HTK failed to maintain adequate records for this compensation. Without admitting or denying the allegations, HTK consented to these findings and described sanctions. As a result, HTK was censured and fined \$50,000.00.

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

#### **Broker-Dealer Registration**

HTK is also a registered broker-dealer and is a correspondent firm of Pershing. In this relationship, HTK introduces Client transactions for execution, clearance and settlement. Pershing also provides custody of client brokerage accounts under this clearing arrangement. All HTK Advisory Series Program Clients establish a securities brokerage account with HTK and execute securities transactions for Advisory Series portfolios through Pershing. Although no Client is required to select HTK for execution or custodial services, HTK will not allow Clients to participate in the Advisory Series Programs if another broker-dealer is selected. HTK does not have the discretion to select the broker-dealer to use other than Pershing. HTK and Pershing are not affiliated companies.

#### **Other Material Relationships**

HTK is a wholly-owned subsidiary of the Penn Mutual Life Insurance Company ("Penn Mutual") and serves as a distributor for variable insurance products issued by Penn Mutual. Penn Mutual and its affiliates are engaged in providing a range of diversified financial services. Certain of these Companies and other affiliates are broker/dealers, investment companies, investment advisers, and insurance companies.

The majority of HTK's registered representatives and IARs are licensed and appointed as life insurance agents with the Penn Mutual Life Insurance Co. The principal business of the Penn Mutual Life Insurance Co., HTK's parent firm, is that of a life insurance company. HTK, as broker/dealer, serves as the distributor for the registered insurance products of the Penn Mutual, and the Penn Insurance and Annuity Company, a wholly-owned subsidiary of HTK's parent. When acting as an insurance agent, an HTK representative may offer/sell insurance products issued and distributed by the respective insurance company. As insurance agents, HTK representatives receive commissions for the sale of insurance products which would be in addition to any compensation received for providing investment advisory services and may be an incentive for the representative to recommend these products.

When acting as an insurance agent, an HTK representative is not precluded from offering life insurance products from an unaffiliated life insurance company. In addition, advice offered to an advisory client is provided in the form of a recommendation that a client may or may not choose to implement. The Client is under no obligation to use HTK or its representatives to implement the recommendations made in a brokerage and/or insurance capacity. If a client chooses to implement securities transactions through HTK, there is a potential conflict as HTK and its representatives may receive commissions for the execution of transactions.

IARs may own and operate their own independent companies outside of HTK. These unaffiliated companies may provide services to clients which include, but not limited to, accounting/tax practices, business consulting, insurance agencies and legal services, among others. If a client engages an IAR for such services, these services are provided in the IAR's professional capacity and not as a representative of HTK.

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

HTK has adopted a Code of Ethics which governs the conduct of all associated persons. The Code includes the following general principles regarding ethics:

- Associated persons must comply with applicable federal securities laws and HTK requirements;
- At all times place the interests of clients first;
- All personal securities transactions must be conducted consistent with the code of ethics and avoid any actual or potential conflict of interest or any abuse of a position of trust and responsibility;
- Investment adviser personnel should not take inappropriate advantage of their positions;
- Information concerning the identity of security holdings and financial circumstances of clients is confidential and is not to be shared except with those associates that need such information to perform their duties;
- Independence in the investment decision-making process is paramount; and
- Any individual not in observance of our Ethics policy may be subject to disciplinary action, to include possible termination.

Our Code of Ethics requires all officers and other related persons to ensure HTK receives required information for accounts which the related person has either direct/indirect beneficial ownership. In addition, all related persons are required to provide information on all securities transactions (involving stocks and bonds) by the related person. Related persons' accounts are periodically reviewed for analysis of potential conflicts of interest and to satisfy applicable regulatory requirements.

HTK will provide a copy of our Code of Ethics to any client or prospective client upon request.

HTK and related persons may buy or sell securities identical to those recommended to clients, at the same time or at different times, subject to the Code of Ethics. As a general practice, client orders (buys / sells) must be executed before transactions are made in IAR and/or related persons accounts when there are transactions in the same securities. HTK periodically reviews the brokerage accounts of related persons against transactions executed on behalf of clients to ensure the activity IARs is in agreement with HTK policies and applicable securities regulations.

In addition, HTK has adopted policies and procedures that seek to prevent access to non-public information about securities recommendations, and client securities, holdings and transactions, except to those associates that need such information to perform their duties.

HTK policy expressly prohibits any related person of HTK from profiting at the expense of our clients and/or competing with a client. In keeping with our policy, no related person's securities activity, either personally or in support of others, may be based on the use of material, non-public information with respect to any such security.

### **Review of Accounts**

Generally, the IAR conducts an initial meeting with the client to determine investment objectives and risk tolerance to ensure the services and advice provided are in agreement with the client's investment needs and current financial situation.

Advisory Series Program accounts are reviewed regularly by the IAR. The Client and IAR will also periodically review the account and discuss the Account's performance, current investment holdings, and the Client's current circumstances. Once an advisory relationship is established, Clients can contact their IAR on an as needed basis to discuss their Account. At least annually, IARs seek to meet with their clients to review suitability information, investment instructions, and other information which may be on file. The Client and the IAR, together, assess the Client's current financial situation to determine whether changes in their objective(s) warrant a change in how assets are managed.

Advisory Series Program accounts are also reviewed quarterly by HTK's Regional Sales Supervisory Dept. to ensure portfolio management services and investment holdings are consistent with the stated objectives of the client. HTK and IARs are responsible for monitoring the account to ensure the account and underlying holdings are consistent with the model selected and the Investment Strategy Report for the account. On a quarterly basis, HTK will notify IARs regarding variance issues. Upon notification, IARs must review and contact Clients to make any needed adjustments to bring the account back in to variance.

### **Client Reports**

Clients receive trade confirmations, monthly brokerage statements and quarterly performance reports from HTK. Clients may contact their IAR at any to discuss their account, financial situation, or investment needs.

For all Advisory Series programs, a statement is delivered detailing portfolio holdings and market prices, all transactions, performance data and fee billing information from the clearing firm. If a transaction occurs during the month, the Client is sent a statement. All accounts, regardless of whether or not there has been activity, receive a statement summarizing all holdings at least quarterly. Pershing, HTK's clearing firm, provides trade confirmations for each security transaction placed in the account.

Clients receive an annual tax reporting statement for Advisory Series program accounts held with Pershing. In addition, performance reports are delivered on a quarterly basis for Advisory Series program accounts to assist the client and IAR in reviewing their account(s).

### **Client Referrals and Other Compensation**

HTK receives compensation from the advisers or distributors of mutual funds when it invests client assets in the funds. The amount of compensation is based primarily on the amount of sales of fund shares and/or total assets with the funds. The amount of support may be affected by total sales, net sales, levels of redemptions, and other factors.

Advisors and distributors may make these payments from their own resources (known as "revenue sharing") or from their retention of underwriting concessions. In the case of funds that have Rule 12b-1 plans, funds pay distributors under such plans, and distributors may share the payments they receive with HTK. HTK currently receives revenue sharing payments from Pershing, LLC, the distributor of money market funds in which HTK client assets are invested.

Cash awaiting investment or reinvestment in custodian accounts may be invested in a money market fund, pursuant to an automatic cash sweep program. The advisor to the fund receives a management fee for its services, and may be an affiliated entity of the advisor, broker and/or custodian of the account. These money market funds may pay HTK out of their Rule 12b-1 (distribution) plans. These payments are not credited back to the client in calculating the client's advisory fee. Funds that have Rule 12b-1 plans may have lower yields than funds that do not. HTK's receipt of 12b-1 fees from a money market fund may create a conflict of interest for HTK in allocating client assets to a money market fund.



HTK receives trail commissions. Load and no-load mutual funds pay annual distribution fees. These fees are also referred to as 12b-1 fees. These fees come from fund assets and consequently indirectly from Client assets. These fees may be initially paid to HTK, and a portion is passed to the IAR. The receipt of such fees may create an incentive for IARs to recommend funds with trail commissions over funds that have no such fees or lower fees. As a result, there is a potential conflict of interest. **Note:** For Advisory Series Program accounts, trail commissions received from mutual funds held in these programs are credited back to clients.

Pershing maintains a list of no-load mutual funds on its FundVest platform. The advisor to a mutual fund on the FundVest platform may pay revenue sharing to Pershing; Pershing shares this compensation with HTK. Because of this payment, HTK may have a conflict of interest in recommending funds on the FundVest platform to clients. This compensation arrangement only applies to the Advisory Series and HTK AMP programs. Short-term redemption fees may also apply if a fund is held for less than three months. HTK addresses this conflict through disclosure in this Brochure.

Pershing also pays compensation to HTK in the form of the annual maintenance fee charged for individual retirement accounts (i.e., Traditional, Rollover and/or Roth accounts) held with Pershing. This compensation may create a conflict of interest for HTK when recommending clients' custody their retirement accounts with Pershing.

HTK's Marketing Partners Program is a program designed to offer managed account program sponsors access to HTK's network of IARs for marketing, training and education purposes. Forming a focused group of supporting sponsors enables HTK to efficiently use its resources in educating its IARs. Marketing Partners receive access to IARs through participation in the following: lists of HTK IARs; educational or sales conferences; and teleconference training. As part of the program, HTK may publicize and/or promote the products, sales ideas and other marketing materials from these supporting sponsors. All approved product sponsors of investment company securities, advisory products and direct participation programs have the opportunity to participate in the Marketing Partners Program. Marketing Partners compensate HTK to obtain greater access to IARs and registered representatives. IARs are not required to promote a Marketing Partner's products or services to client. In addition, HTK does not allow any additional compensation to be paid to IARs for recommending a Marketing Partner's investments or products. Recommendations made by IARs to clients must be based upon the product suitability and consistent with the stated objectives of the client.

IARs may receive production bonuses as a result of reaching certain levels of sales and/or assets under management. Production levels and compensation to representatives may vary. There is a potential conflict of interest for HTK and its IARs in recommending certain affiliated products, because HTK keeps a greater share of the revenue from that product.

HTK IARs are eligible to receive incentives, prizes, awards, and certain reimbursements for advertising, sales literature and promotion offered by product promoters such as mutual fund companies. HTK's policy is to permit all IARs to accept such awards and prizes to the extent that they are usual and customary within the industry, and in compliance with the SEC, FINRA, or state rules, regulations or guidelines.

Because an IAR may receive such incentives, a conflict of interest exists when an IAR recommends a product or service for which an incentive or prize may be awarded.

HTK addresses the conflict described above through disclosure in this Brochure.

### **Financial Information**

HTK does not require or solicit prepayment of more than \$1,200 in fees per client six months or more in advance. Therefore, HTK has not included a balance sheet of its most recent fiscal year. HTK is not aware of any financial condition that is reasonably likely to impair its ability to meet its contractual commitments to clients, nor has HTK been the subject of a bankruptcy petition at any time during the past ten years.



## Customer Privacy Notice

In order to provide you with financial and investment advice, services and products, Hornor Townsend & Kent ("HTK") must obtain nonpublic personal information about you. HTK recognizes the importance of safeguarding this information in order to protect your privacy.

### What information HTK Collects

HTK collects nonpublic personal information through a variety of means, including telephone conversations, personal meetings, applications and forms. This nonpublic personal information includes your name, address, social security number, assets, income, investment objectives and investment experience. Additionally, HTK collects information about your transactions with HTK and its affiliates, including your account balance, transactional history, and previous investments. You have the right to access and request correction of recorded information. You may write or call us at (800) 225-7637 to make such a request.

### HTK's Disclosure Policy

HTK does not disclose information about current or former customers to anyone, except as permitted by law. For instance, HTK may share customer information with its affiliates (for example, the Penn Mutual Life Insurance Company) to the extent necessary to comply with client requests for products and services. HTK may also share customer information with third party service providers to assist it in providing requested services.

For example, HTK shares customer information with its clearing firm, so that clients can receive statements, trading confirmations, monthly and or quarterly account statements, reorganization notices, and proxy information.

For clients with investment advisory accounts, HTK shares information with investment companies and fund managers in order to enable them to make asset allocation and fund investment decisions. HTK ensures that any third parties that have access to customer information are contractually bound to keep this information confidential. Information HTK obtains from a report prepared by an insurance-support organization may be retained and disclosed by that organization.

HTK is also permitted to disclose customer information in order to: comply with a subpoena or a request for information from the Securities Exchange Commission, FINRA Regulation, or other federal or state securities or insurance regulatory body; to comply with federal, state or local laws; to guard against fraud; and to comply with service of process (subpoena, court order, etc.).

### HTK's Security Policy

HTK maintains physical, electronic, and procedural safeguards that comply with federal standards to safeguard your personal information. All of HTK's employees are trained to respect our customers' privacy rights and are subject to disciplinary measures for failure to comply with HTK's Privacy Policy. HTK does not intend to alter its privacy policy in the future. However, if HTK did change its policy regarding the sharing of information, HTK would notify clients in advance and provide clients with an opportunity to prevent any disclosures.