

## **MONITOR PROGRAM DISCLOSURE BROCHURE**

This brochure provides clients with information about the qualifications and business practices of J.J.B. Hilliard, W.L. Lyons, LLC (“Hilliard Lyons”) and the Monitor Program it provides to clients. If you have any questions about the contents of this brochure, please contact us at 502-588-8400. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority. Additional information about Hilliard Lyons is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).



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## **Material Changes**

Since J.J.B. Hilliard, W.L. Lyons, LLC prepared its annual amendment, dated December 1, 2011, for the fiscal year ended September 30, 2011, one material change has occurred. Hilliard Lyons signed an Admission, Waiver and Consent on November 2, 2012, without admitting or denying that it violated Municipal Securities Rulemaking Board Rules applicable to the firm's pricing of municipal securities transactions during the period of October 1, 2008 through December 31, 2008. The firm was censured, fined \$35,000 and ordered to provide restitution to clients in the amount of \$23,874.



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## **ADVISORY BUSINESS**

This brochure describes the Hilliard Lyons Monitor Program (“Monitor Program” or “Program”) offered by J.J.B. Hilliard, W.L. Lyons, LLC (“Hilliard Lyons”).

### **Description of Hilliard Lyons**

Hilliard Lyons is a limited liability company which has been engaged, through its predecessors, in the general securities brokerage business since 1854. Hilliard Lyons was founded in Louisville, Kentucky and its corporate office remains in Louisville. It is registered with the Securities and Exchange Commission both as an investment adviser and broker dealer. It buys and sells, both as agent and as principal, many types of securities including corporate stocks and bonds, options, municipal bonds, and U.S. Government and agency obligations. Through its corporate finance department, Hilliard Lyons assists companies in raising capital through public offerings of debt and equity issues and provides advice on mergers and acquisitions.

In 1998, Hilliard Lyons was acquired by PNC Financial Services Group, Inc. (“PNC”). In 2008, ownership of Hilliard Lyons changed hands and Hilliard Lyons, along with its affiliate, Hilliard Lyons Trust Company, LLC (“HLTC”) were acquired by HL Financial Services, LLC (“HL Financial Services”). HL Financial Services is owned by Houchens Industries, Inc. (“Houchens”) of Bowling Green, Kentucky, employees of Hilliard Lyons, employees of HLTC, and a limited number of outside investors. Houchens is a diversified, employee-owned company that has been in business since 1917. HLTC is a Kentucky State chartered trust company, providing asset management, trust administration, and estate planning services for clients and institutions.

In addition to the Monitor Program, Hilliard Lyons offers multiple advisory services including financial planning and the following wrap fee programs: Custom Portfolio Management (account managed by HLTC), Integrated Portfolio Solutions (unified managed account and separate account management), Portfolio Advisor (non-discretionary portfolio management), Private Account Management (discretionary portfolio management), Separate Portfolio Strategies (outside manager), and Strategic Fund Solutions (mutual fund asset allocation). A “wrap fee program” means that Hilliard Lyons provides investment advice, trading and custody for client securities for a single asset based fee. Hilliard Lyons receives all or a portion of the wrap fee depending on the individual service.

Separate brochures describe these other investment advisory services offered by Hilliard Lyons. If you would like to request a brochure for another Hilliard Lyons investment advisory service, please contact your financial consultant or (502) 588-8181, (800) 444-1854 ext. 8181. Copies are also available at [www.sec.gov](http://www.sec.gov).

As of September 30, 2012, Hilliard Lyons had \$4,655,957,770 in assets under management, \$2,985,541,332 of which were managed on a discretionary basis and \$1,670,416,438 of which were managed on a non-discretionary basis. Hilliard Lyons is dually registered as a broker dealer and investment adviser. As of September 30, 2012, Hilliard Lyons had in excess of \$30 billion of brokerage assets.

### **The Monitor Program**



Under the Program, you, with the assistance of your financial consultant, will select an outside, unaffiliated investment manager or managers for your assets from a designated pool of money managers provided by Lockwood Advisors, Inc. (“Lockwood”) a registered investment advisor. Pursuant to an agreement between Hilliard Lyons and Lockwood, Lockwood offers a pool of investment money managers to clients of Hilliard Lyons in the Monitor Program. Through Lockwood, we have access to various money managers, which may not otherwise be available to our clients. Lockwood may, in its discretion, add or remove money managers from this pool. Trading, custody of assets, and various administrative services will be provided by Pershing, LLC (“Pershing”), an affiliate of Lockwood. Hilliard Lyons is not related to or affiliated with Lockwood or Pershing.

Lockwood provides us with a number of tools to assist us in providing you with investment advisory services. Lockwood charges for its services as a percentage of assets under management. Please refer to Lockwood’s disclosure brochure for more information.

Lockwood and Pershing each reserve the right to reject and not provide services to any client or clients for any reason.

Hilliard Lyons will assist you with reviewing your investment objectives and we discuss with you your income and financial resources and your goals for your assets. We work with you to complete Lockwood’s investor profile questionnaire. This questionnaire assists you in identifying appropriate objectives, risk tolerance and helps identify investment manager or managers for your account. We provide you with a copy of your investment profile and performance reviews regarding the money manager you select. Your financial consultant will remain your primary contact. You have the ability to place restrictions on the types and classes of securities which may be purchased for your account, subject to the approval of the selected money manager.

Pershing will provide you with trade confirmations of transactions in your account; provided; however, periodic statements of account activity may be furnished in lieu of transaction by transaction confirmations to the extent and in the manner permitted by Rule 10b-10 under the Securities Exchange Act of 1934, as amended. In addition, Pershing will provide Hilliard Lyons with a statement of client’s account activity at least quarterly and periodic (generally quarterly) portfolio performance reports of client’s account and Hilliard Lyons will make these available to the client.

Your financial consultant will meet with you annually, or more or less often as you may mutually agree, to review your account.

## **FEES AND COMPENSATION**

Hilliard Lyons’ standard fee schedule for the Program is as follows:

Assets Under Management	Advisory Fee
First \$500,000	1.25%
\$500,000 - \$1,000,000	1.00%
\$1,000,000-\$2,000,000	0.75%
Over \$2,000,000	Negotiable

Fees may vary from the applicable schedule above as negotiated by the client based on personal circumstances. Therefore, the fee agreed upon by Hilliard Lyons and the client in the contract supersedes the fee schedule set forth above. The minimum account size is generally \$100,000 for the Program. The



minimum annual fee is \$1,250. Fees are charged quarterly in advance based on the prior quarter's ending market value.

The fee schedule above includes only fees for Hilliard Lyons' assistance in selecting your money manager in the Program. The fee does not include the money manager's portfolio management fee, Lockwood's fee, Pershing's fee, custody fees and commissions (except as described below). Please review Lockwood's brochure for information regarding these other fees. The Program may cost you more than purchasing these services separately.

At inception, fees are billed from the date the account is opened through the end of that calendar quarter in advance. Thereafter, fees are billed in advance for the next calendar quarter based upon the value of the assets at the end of the prior calendar quarter. A prorated fee may be charged on each post-inception deposit in excess of \$5,000.

Pershing will deduct fees from your account to pay itself, Hilliard Lyons, Lockwood, and the money manager.

In addition to the fee paid by the client in connection with the Program, each mutual fund in which program assets may be invested pays its own separate investment advisory fees and other expenses. Assets held in such funds are subject to various fees and expenses paid by the investment company, but ultimately borne by the investor. Assets in the Program may be invested in mutual funds, including money market funds.

Money market funds may be used as temporary investment vehicles for the cash balances in your account. These money market funds may be managed by an affiliate of Pershing and Lockwood. Overall fees charged on account values will include these money market balances. You will bear a proportionate share of the fund's expenses, advisory fees, and any other charges in addition to the fee you pay under the Program.

You and/or Hilliard Lyons may terminate the agreement by notifying the other in writing. In the event of termination of the Agreement, you will receive a pro rata refund of the unearned fee, less reasonable start-up costs. Accounts terminated by the client within the first year of opening the account will result in a termination fee of \$300.

Clients could access the money managers offered by Lockwood through other brokers and agents unaffiliated with Hilliard Lyons.

## **PERFORMANCE BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

Hilliard Lyons does not charge performance fees.

## **TYPES OF CLIENTS**

The Monitor Program is available to a broad range of client types, including individuals, trusts, estates, charitable organizations, pension and profit sharing plans, corporations, IRA accounts, and ERISA accounts. The minimum account size is generally \$100,000 for the Program. The minimum annual fee payable to Hilliard Lyons is \$1,250.



## **METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

Under the Monitor Program, through an agreement with Hilliard Lyons, Lockwood provides clients with a pool of outside money managers, all with their own investment styles. Some investment styles may carry more risk than other investment styles. All investing involves the risk of loss and clients should be prepared to bear any loss that might occur as a result of investing. Diversification may mitigate the risk of loss, but it cannot prevent loss in an overall down market. Clients are encouraged to discuss risk tolerance and liquidity needs with their financial consultants in choosing an outside money manager for their account and in devising a portfolio that best meets their needs. For more information regarding methods of analysis and investment strategies, clients should refer to Lockwood's brochure.

## **DISCIPLINARY INFORMATION**

Rule 206(4)-4 of the Investment Advisers Act, requires advisers, among other disclosure obligations, to notify their clients of certain disciplinary information, including fines by self-regulatory organizations. As a broker dealer, over the last ten years, Hilliard Lyons has been subject to the following fines, as described in more detail in Part I of its Form ADV, available on [www.sec.gov](http://www.sec.gov): (i) on March 7, 2003, Hilliard Lyons entered into an Acceptance, Waiver and Consent ("AWC") with the National Association of Securities Dealers ("NASD") for failing to display immediately customer limit orders in Nasdaq securities in its public quotation resulting in a \$5,000 fine; (ii) on March 26, 2004, Hilliard Lyons entered into an AWC with the NASD related to a violation of NASD rules applicable to order audit trail systems ("OATS") for the period between January 1, 2002 and March 31, 2002, resulting in a \$10,000 fine; (iii) on November 30, 2004, Hilliard Lyons entered into an AWC with the NASD related to the failure to timely file certain amendments to Forms U-4 and U-5 (broker registration documentation), resulting in a \$125,000 fine and was required to conduct internal audits to monitor disclosure reporting; (iv) on June 11, 2007, Hilliard Lyons entered into a Stipulation of Facts and Consent to Penalty with the NYSE in connection with three private placement transactions conducted by Hilliard Lyons in 2000 and 2001 resulting in sanctions of a censure, a fine of \$1,000,000, an undertaking to make restitution to customers in an amount not to exceed \$3,575,108, and an undertaking to notify the NYSE and certify that supervisory systems, controls and policies/procedures are in place before acting as lead underwriter or placement agent in certain transactions exempt from registration under the federal securities laws; (v) on February 17, 2009, Hilliard Lyons entered into an AWC with the Financial Industry Regulatory Authority ("FINRA") in connection with the purchase and sale of corporate bonds to customers and failure to sell or buy such bonds at a fair price taking into consideration all relevant circumstances resulting in a censure, a fine of \$25,000, and an undertaking to make restitution to customers of \$5,987, plus interest; (vi) on March 24, 2009, Hilliard Lyons entered into an AWC with FINRA relating to the breakpoint self-assessment follow-up review conducted by Hilliard Lyons. FINRA found that the firm failed to accurately complete the self-assessment of breakpoint compliance required by FINRA of certain member firms that sold front-end load mutual funds. FINRA found that firm's self-assessment underreported the number of transactions with missed breakpoints. Had the firm accurately completed its self-assessment, FINRA would have directed the firm to undertake additional remedial steps. Without admitting or denying the findings, Hilliard Lyons consented to the described sanctions and to the entry of findings; therefore, Hilliard Lyons was censured and fined \$500,000; (vii) on November 16, 2009, Hilliard Lyons entered into an AWC with FINRA. FINRA found that Hilliard Lyons had inadequate procedures related to its receipt of funds from customers of its affiliated introducing broker. FINRA found that \$133,616.65 of customer deposits were never properly identified and credited to the appropriate customer account. The unidentified check deposits affected the firm's books and records, financial records, and month-end customer statements. In addition, FINRA also made findings with respect to inadequate procedures and failure to perform inter-company reconciliations, failure to record applicable net capital charges, failure to conduct supervisory reviews of certain reconciliations and accounts, inadequate



supervision of its research analysts and the adequacy of research disclosures. Without admitting or denying the findings, Hilliard Lyons consented to the described sanctions and was censured, fined \$200,000 and required to place \$133,817 into a segregated interest bearing account for five years to reimburse any customers who can reasonably demonstrate that they made deposits which the firm did not credit to their account; (viii) on August 27, 2010, Hilliard Lyons entered into a AWC with FINRA related to a violation of FINRA rules applicable to OATS for the period between August 1, 2006 and June 30, 2007, resulting in a censure and a \$7,500 fine; (ix) on January 14, 2011, Hilliard Lyons entered into a Settlement Stipulation with the State of Florida Department of Financial Services pursuant to which Hilliard Lyons was placed on two year probation with respect to its insurance agency license and a \$15,000 fine based on prior administrative actions reported; (x) effective March 2, 2011, Hilliard Lyons entered into a Stipulation with the State of New York Insurance Department relating to the provision of incorrect information in connection with a renewal of its application for an insurance license and was fined \$24,500 and (xi) as of May 17, 2011, the State of Indiana fined Hilliard Lyons \$79,500 for failing to train fully its employees regarding auction rate securities. In addition, Hilliard Lyons agreed to reimburse the state \$7,500 for investigation costs and to use best efforts to make no net costs loan to eligible investors and repurchase applicable auction rate securities by March 31, 2014, if not already redeemed, with such securities valued at \$175,000 as of May 17, 2011 and (xii) on July 28, 2011, Hilliard Lyons entered into an Admission, Waiver, and Consent with FINRA related to a violation of Regulation SHO 203 & 204 related to short sales, resulting in a censure and a \$30,000 fine and (xiii) on November 2, 2012, Hilliard Lyons signed an Admission, Waiver and Consent, without admitting or denying that it violated Municipal Securities Rulemaking Board Rules applicable to the firm's pricing of municipal securities transactions during the period of October 1, 2008 through December 31, 2008. The firm was censured, fined \$35,000 and ordered to provide restitution to clients in the amount of \$23,874.

## **OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

Hilliard Lyons is dually registered as an investment advisor and broker dealer. Hilliard Lyons holds an insurance license in multiple states.

Hilliard Lyons is owned by HL Financial Services, LLC which also owns Hilliard Lyons Trust Company, a Kentucky state chartered trust company. HL Financial Services, LLC is owned by Houchens Industries, employees of Hilliard Lyons and Hilliard Lyons Trust Company and a limited number of outside investors.

Hilliard Lyons is the administrator for the DNP Select Income Fund, DTF Tax-Free Income Inc., and Duff & Phelps Utility and Corporate Bond Trust Inc.

## **CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

Hilliard Lyons is committed to serving the best interests of its clients. To this end, we have adopted a Code of Ethics under Rule 204A-1 of the Advisers Act. The Code of Ethics consists of certain general principles including that (i) advisory personnel must place client interests before their own, (ii) the personal securities transactions of Hilliard Lyons personnel must avoid even the appearance of a conflict with client interests and (iii) Hilliard Lyons personnel must avoid actions or activities that allow, or appear to allow, them to profit or benefit from their position with respect to clients, or that would otherwise bring into question their independence or judgment. In addition, the Code of Ethics requires employees to report their personal securities transactions and holdings. We will provide a copy of the Code of Ethics to any client or prospective client upon request.





Financial consultants may trade for their own accounts, including the same securities that are being traded in client accounts. Hilliard Lyons monitors activity in its employees' personal accounts to detect potential abuses.

## **BROKERAGE PRACTICES**

Hilliard Lyons does not receive brokerage commissions for trading that occurs in client accounts in the Program. Trading services for client accounts are provided by Pershing, an affiliate of Lockwood. Hilliard Lyons is not related to or affiliated with Lockwood or Pershing.

## **REVIEW OF ACCOUNTS**

Your financial consultant reviews your account at least annually. Your financial consultant is responsible for periodically reviewing your account to assess whether the investment strategy and investments made for your account are suitable for you. Your financial consultant's branch office manager also provides supervision of the account. Clients with questions concerning their accounts should contact their financial consultant, the financial consultant's branch manager, or the Manager of the Consulting Services Group.

Pershing will provide you with a statement of account activity at least quarterly and periodic (generally quarterly) portfolio performance reports of your account.

## **CLIENT REFERRALS AND OTHER COMPENSATION**

From time to time, Hilliard Lyons enters into referral fee arrangements with banks, and/or other entities or persons, pursuant to which the referring partner receives a fee for referring business to Hilliard Lyons. Hilliard Lyons does not add a fee differential to compensate for any referral fee payments. Referral partners should provide a Disclosure Document pursuant to Rule 206(4)-3(b) of the Investment Advisers Act. If you have any questions regarding whether a referral payment is being made, please consult your Hilliard Lyons financial consultant.

Hilliard Lyons may receive fees from The Bancorp Bank for referring clients to The Bancorp Bank. Hilliard Lyons may receive fees from a registered investment advisor whom Hilliard Lyons utilizes as a due diligence provider for referring potential clients to that investment adviser.

## **CUSTODY**

Under the Program, custody of client accounts is provided by Pershing, an affiliate of Lockwood. Hilliard Lyons is not related to or affiliated with Lockwood or Pershing.

## **INVESTMENT DISCRETION**

Hilliard Lyons does not have investment discretion over client accounts in the Monitor Program. Under the Program, clients, with the assistance of their financial consultant, select an outside, unaffiliated investment manager or managers for their assets from a designated pool of money managers provided by Lockwood. The outside manager selected has investment discretion over client's account.



## **VOTING CLIENT SECURITIES**

Unless otherwise directed by the client, the outside money manager votes the proxies. Note that clients can always elect to vote their own proxies for their accounts, but such election must be for the whole account, not individual securities within the account.

If applicable, in the case of mutual funds, the investment company management has adopted proxy voting policies and guidelines and will vote the proxies on the underlying securities on behalf of the Client.

## **FINANCIAL INFORMATION**

Financial information regarding Hilliard Lyons can be found on [www.hilliard.com](http://www.hilliard.com).

Hilliard Lyons does not require or solicit prepayment of advisory fees six months or more in advance. Hilliard Lyons does not have any financial condition that it believes could impair its ability to meet its contractual commitments to its clients.

