



**MARCH 27, 2013**

**Item 1 – Cover Page**

This Brochure provides information about the qualifications and business practices of HoyleCohen, LLC (“HoyleCohen, LLC”). If you have any questions about the contents of this Brochure, please contact us at (858) 576-7300. 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.

HoyleCohen, LLC is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information to use when considering to hire or retain an Adviser.

Additional information about HoyleCohen, LLC also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by a unique identifying number, known as a CRD number. The CRD number for HoyleCohen, LLC is 141125.

## Item 2 – Material Changes

On July 28, 2010, the United States Securities and Exchange Commission published “Amendments to Form ADV” which amends the disclosure document that we provide to clients as required by SEC Rules. As of March 27, 2013, according to the SEC’s new requirements and rules, the following changes were addressed in this updated Brochure:

- Regulatory Assets Under Management value has been updated in Item 4 – Advisory Business
- Updates have been provided in Item 10 – Other Financial Industry Activities and Affiliations

We will ensure that you receive a summary of any materials changes to this and subsequent Brochures within 120 days of the close of our business’ fiscal year. We may further provide other ongoing disclosure information about material changes as necessary.

We will further provide you with a new Brochure as necessary based on changes or new information, at any time, without charge.

Our Brochure may be requested by contacting Mark Delfino, Managing Director, at (858) 576-7300. Additional information about HoyleCohen, LLC is also available via the SEC’s web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC’s web site also provides information about any persons affiliated with HoyleCohen, LLC who are registered, or are required to be registered, as investment adviser representatives of HoyleCohen, LLC.

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## **Item 4 – Advisory Business**

HoyleCohen, LLC (“HC”) is a wholly owned subsidiary of Focus Financial Partners, LLC and has been providing advisory services (through it and its predecessor) since 2001.

As of December 31, 2012, HC managed \$550,059,715 in assets on a discretionary basis within our standard investment platform. In addition, we had \$56,439,822 in assets either in transition or outside of our standard platform.

### **Investment Management and Advisory Services:**

HC typically provides investment management and advisory services on a discretionary basis (although if agreed to with clients we may and do manage accounts on a non-discretionary basis) and primarily involves the use of mutual funds and ETFs. In addition, we conduct due diligence on third-party managers for fixed income and equity accounts and/or investment strategies that we may recommend and facilitate investment into such supplemental investment programs. A client’s investment with a third-party manager is either via a sub-advisory agreement, where HC takes the discretion to allocate client assets to a third-party manager and retains hire/fire authority over the third-party manager, or in the case of certain private investment funds and other supplemental investment programs, a recommendation to the client, but it is ultimately the client’s decision whether or not to invest in the private investment funds. In such situations HC will provide each client with disclosures (in addition to this brochure) that disclose any affiliation or conflict, as well as the specific risks involved, that are inherent in the recommendation.

We allocate a client’s assets among various asset classes, in accordance with the client’s specific goals, time horizon and any investment constraints of the client. Each client’s portfolio is reviewed at least quarterly and rebalanced or adjusted when appropriate.

HC uses investment and portfolio allocation software to evaluate alternative portfolio designs. We may evaluate the client's existing investments with respect to the client's investment objectives. HC works with new clients to develop a plan of transition for moving from the client's existing portfolio to the portfolio recommended by us. HC will then continuously monitor the client's portfolio holdings and the overall asset allocation strategy and hold periodic review meetings with the client regarding the account as necessary.

HC is also the Managing Member and investment manager to The Enhanced Income Fund I Fund, LLC (“EIF”), an affiliated private investment fund of funds that certain existing HC clients

have been solicited to invest in. EIF closed as of June 31, 2010 to any new investors and is in the process of liquidating. EIF invests in the equity securities of public and private mortgage funds which engage in the business of making and arranging loans to the general public on various types of real estate including, but not limited to, single-family residential, multi-family residential, commercial, retail, office, industrial, land, hospitality, construction and other special uses loans, as well as occasionally acquiring existing loans and selling loans, all of which are or will be secured by deeds of trust and mortgages on real estate throughout the United States.

As of December 31, 2012, The Enhanced Income Fund I, LLC consists of Lantzman Mortgage Fund, Covenant Management/Boundary Bay Note and several individual trust deeds and LLCs. Millennium Trust Company has custody of all assets of The Enhanced Income Fund I, LLC. Millennium Trust company reports to each member on a quarterly basis. HC manages the fund and performs the due diligence. Existing clients may also participate directly in mortgage funds managed by Lantzman Investments.

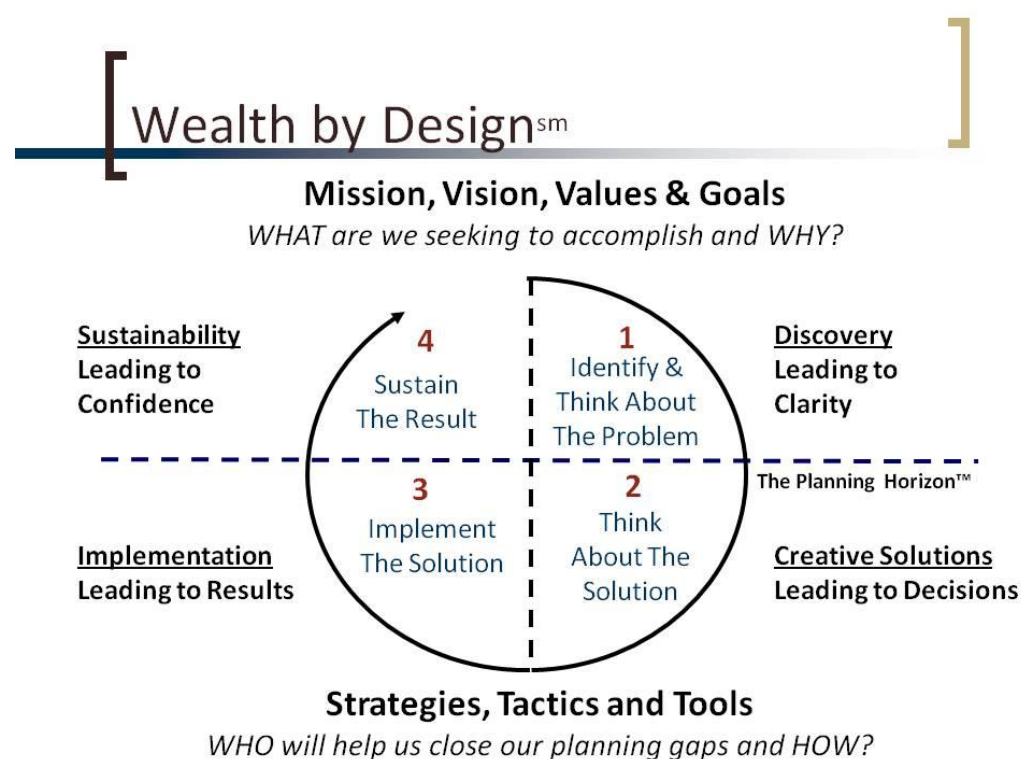
#### **Advanced Financial Planning/Wealth-by-Design<sup>SM</sup> Consulting Services:**

Through our Wealth-by-Design<sup>SM</sup> process we also consult with clients on various financial areas including, but not limited to:

- income and estate tax planning
- sale of business interests structures
- college financial planning
- retirement planning
- insurance analysis
- personal cash flow analysis
- establishment and design of retirement plans and trust designs

A written financial planning or consulting report may be prepared. Should you choose to implement the recommendations contained in the plan, we suggest you work closely with your attorney, accountant, insurance agent, and/or stockbroker. Implementation of financial plan recommendations is entirely at your discretion.

HC's Wealth-by-Design<sup>SM</sup> utilizes the following process:



Approximately 90% of HC's advisory billings are attributable to continuous investment management and advisory services with the remaining 10% attributable to other advisory services including, but not limited to financial planning.

## Item 5 – Fees and Compensation

### Investment Management and Advisory Services:

Clients pay us annual fees based on assets under management, generally determined according to the following fee schedule, or a flat annual fee.

| <u>Total Portfolio Value</u> | <u>Annual Fee</u> |
|------------------------------|-------------------|
| On the first \$500,000       | 1.50%             |
| On the next \$2,500,000      | 1.00%             |
| On the next \$2,000,000      | 0.80%             |
| All assets over \$5,000,000  | 0.60%             |

Prior to providing investment management services, we agree on the exact fee with each client, dependent on variables such as specific situations, account size and specific investment requirements. We reserve the right to charge a minimum fee, reduced fee or no fee.

When calculating fees on accounts based on a percentage of total assets under management, we use the value of the assets on the last day of each quarter. The quarterly percentage is one fourth of the annual percentage and is charged in advance. It is your responsibility to verify the accuracy of the fee calculation and we strongly recommend that you review the statements you receive from your designated custodian.

When determining the fee on initial or subsequent contributions of \$10,000 or more, accounts will be charged a pro-rated fee for the quarter based upon the value of the contribution on the day the deposit is made. In situations where withdrawals are made of \$10,000 or more and assets remain in the account, adjustments will be assessed pro-rated to the day of the withdrawal. In cases where accounts are closed completely or in some special circumstances, the amount of the fee or refund and the timing of the payments may be negotiable. Lower fees for comparable services may be available from other sources.

As disclosed above, EIF is currently closed to new investors and is in the process of being liquidated. EIF pays a management fee of 1% to HC as manager of the Fund. While HC does not utilize its discretion to invest clients in EIF, it has solicited clients to do so in the past and those clients who decided to invest in The Enhanced Income Fund I, LLC therefore pay an indirect advisory fee and a direct advisory fee on the same asset. A conflict of interest therefore exists as HC was incentivized to recommend EIF due to the additional fee revenue that resulted. HC provided EIF prospectuses, disclosed account fees on a client's Investment Management and Advisory Agreement that the client signed and verbally disclosed the total cost to all prospective investors and clients.

#### **Financial Planning/Consulting Services:**

Financial planning and consulting fees will be charged as a fixed fee, typically ranging from \$3,500 - \$15,000 depending on the nature and complexity of each client's circumstances. Up to 100% of this fee may be due upon signing the agreement, with any balance due upon presentation of the plan to the client.

Clients may simultaneously be subject to HC's direct management fee, the management fee of the mutual fund and/or third-party manager they are using, expenses associated with various products their portfolios may hold and/or transaction fees and administration costs from the custodian of their assets.

HC or you may terminate our advisory relationship at any time, for any reason, upon giving written notice. No fee is ever paid more than six months in advance for work that is not completed. HC may amend client fees upon 45 days advance written notice to the client, subject to the clients' right to terminate HC's services at any time by providing written notice.

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

HC does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client). All fees are calculated as described above and are not charged on the basis of income or capital gains or capital appreciation of the funds or any portion of the funds of an advisory client.

As disclosed under Item 4, HC may utilize sub-advisers in its management of client accounts, and typically retains hire/fire authority over such sub-advisers. Certain of the sub-advisers selected by HC may charge performance-based fees; however, HC does not share in any such performance-based fees.

## **Item 7 – Types of clients**

HC provides investment management and advisory services to individuals, high net worth individuals, corporate pension and profit-sharing plans and manages EIF, an affiliated pooled private investment vehicle. HC typically requires a minimum size of \$500,000 for client accounts, and reserves the right to charge a minimum annual fee for accounts that fall below this amount.



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

Our investment philosophy is simple: to attempt to attain the highest probability of success at the lowest possible risk. Our approach combines a blend of components into a proprietary process. The result is a customized portfolio that we believe positions our clients for long-term probability of achieving the financial security and wealth accumulation they need to meet their life's objectives. HC studies various sources of research to identify asset classes we believe will perform best over a long-term planning horizon and use this to create "fair value" asset models. Over time, HC may overweight asset classes believed to be undervalued and allocate assets away from rapidly appreciating asset classes we feel have become overvalued. This approach creates stability. We do not chase "hot" areas. Empirical evidence reveals that such momentum investment strategies typically result in lower returns and higher volatility over the long-term. At HC we utilize an "open architecture" investment approach. Mutual funds, fund managers, and investment programs are selected based on a multi-step, bottom-up screening methodology geared toward providing superior risk-adjusted returns throughout bull and bear market cycles. HC puts a premium on funds, managers and asset classes which do well in volatile and declining markets.

HC uses mutual funds and exchange-traded funds ("ETFs") and purchases third-party research for use when building internal investment model portfolios for clients and to aid in tactical allocation alterations. HC typically employs fundamental analysis when reviewing a client's existing holdings or if a client presents a specific question.

Individual stock review may include the study of past corporate earnings, interest rate projections; risk evaluation of a firm, examination of company management and the company's standing within its own industry and the prospects for the industry as a whole. The goal is to attain insight into a firm's future performance primarily through macroeconomic and industry circumstances which may influence a firm's relative performance. However, it is important to note that HC does not engage in this type of individual stock analysis as an on-going service within its own managed investment portfolios.

HC uses software that creates a goals-based analysis designed to help measure the current probability of success of an individual attaining their prioritized goals. The software uses statistical data about clients' actual and/or recommended assets to generate results for comparative purposes using asset class correlation and other client specific variables. Results are calculated using average returns and stress-tested via Bad Timing, Monte Carlo and Historical Rolling Periods. Additionally, results are back tested for the time periods from 1970 to 2009.

The Bad Timing illustration is calculated by using low returns in years one and two following retirement, and average returns for all remaining years of the plan. Historical Rolling Periods are a series of historical back tests, each of which uses the actual historical returns and inflation rates, in sequence, from a starting year to an ending year, and assumes that one would receive those returns and inflation rates, in sequence, from this year through plan end. Monte Carlo simulations are used to show how variations in rates of return each year can affect results. A Monte Carlo simulation calculates the results of a plan by running it many times, each time using a different sequence of returns. The percentage of successful trials is shown as the probability that the plan, with all its underlying assumptions, could be successful.

HC offers a variety of investment programs to meet its clients' needs of generating consistent income for those whom it is appropriate, diversification programs for clients with concentrated portfolios and tax-efficient programs for clients with high tax burdens. We will also utilize special programs to take advantage of periodic dislocations in the market and provide unique income and/ or growth opportunities. Finally, we may use structured products, options, and separate account managers for suitable clients in order to protect principal, secure gains and/ or generate income. Periodic reviews are performed to ascertain any changes in a client's situation or objectives.

HC performs due diligence and conducts periodic phone reviews and/or on-site visits with fund managers as part of the selection and on-going due diligence process for The Enhanced Income Fund I, LLC and for the supplemental investment programs made available to clients.

### **Types of Investments**

HC defines client investment objectives using our Wealth-by-Design<sup>SM</sup> Planning Process and then matches them with one or more core model portfolios. The core model portfolios primarily utilize mutual funds and ETFs and span a spectrum of potential investment returns and risks from relatively conservative to relatively aggressive.

In addition, HC recommends and has developed special programs to address special needs or situations and to take advantage of periodic dislocations in the market. The supplemental programs are intended to complement the core model portfolios.

HC may recommend as a core substitute or as part of our supplemental programs, investing into, or provide advice on, limited partnerships, limited liability companies and the use of separate account managers. In addition, we may use structured products and options for suitable clients.

### Analysis of a Client's Financial Situation

In the development of investment plans for clients, including the recommendation of an appropriate asset allocation, HC relies on an analysis of the client's financial objectives, current and estimated future resources, and tolerance for risk. To derive a recommended asset allocation, HC may use a Monte Carlo simulation, a standard statistical approach for dealing with uncertainty. As with any other methods used to make projections into the future, there are several risks associated with this method, which may result in the client not being able to achieve their financial goals. They include:

- The risk that expected future cash flows will not match those used in the analysis
- The risk that future rates of return will fall short of the estimates used in the simulation
- The risk that inflation will exceed the estimates used in the simulation
- For taxable clients, the risk that tax rates will be higher than was assumed in the analysis

### Risk of Loss and Other Investment Risks

**Investing involves risk of loss that clients should be prepared to bear.**

All investments present the risk of loss of principal. The risk that the value of securities (mutual funds, ETFs and individual bonds), when sold or otherwise disposed of, may be less than the price paid for the securities. Even when the value of the securities sold is greater than the price paid, there is the risk that the appreciation will be less than inflation. In other words, the purchasing power of the proceeds may be less than the purchasing power of the original investment.

The mutual funds and ETFs utilized by HC may include funds invested in domestic and international equities, real estate investment trusts (REITs), corporate and government fixed income securities and commodities. Equity securities may include large capitalization, medium capitalization and small capitalization stocks. Mutual funds and ETF shares invested in fixed income securities are subject to the same interest rate, inflation and credit risks associated with the underlying bond holdings.

Among the riskiest mutual funds used in HC's investment strategies funds are the U.S. and International small capitalization growth and small capitalization value funds, emerging market equity and debt funds, high yield bond funds and commodity futures funds. Conservative fixed income securities have lower risk of loss of principal, but most bonds (with the exception of Treasury Inflation Protected Securities, or TIPS) present the risk of loss of purchasing power through lower expected return. This risk is greatest for longer-term bonds.

Certain funds utilized by HC may contain international securities. Investing outside the United States involves additional risks, such as currency fluctuations, periods of illiquidity and price volatility. These risks may be greater with investments in developing countries. More information about the risks of any particular market sector can be reviewed in representative mutual fund prospectuses and via additional research into applicable sectors and asset classes.

As part of its' advisory services, HC may recommend investments into direct real estate, mortgage notes, residential mortgage backed securities, Master Limited Partnerships (MLPs) and other private funds or special account programs. Because many of these strategies concentrate their investments in areas associated with the real estate industry, they may experience more volatility and be exposed to greater risk than the core model portfolios of mutual funds and ETFs. Additional risks that investors should be aware of are: credit risk, prepayment risk, possible illiquidity and default, as well as increased susceptibility to adverse economic developments.

## **Item 9 – Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of HC or the integrity of HC's management. HC has no information applicable to this Item.

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

As disclosed under Item 4, HC may select other sub-advisers on behalf of clients for management of specific investment strategies or styles. HC only selects unaffiliated investment advisers as part of this process, and in addition to the fee (management and/or performance-based) charged by the sub-adviser to the client, HC charges a management fee as agreed to with the client in the advisory agreement. As HC does not share in any fees charged by a sub-adviser, the potential conflict of interest inherent in such arrangements does not exist.

Joe Cohen serves as a trustee on the Boards of the Jewish Community Foundation (San Diego) and the Orcas Island Community Foundation (Washington) as well as serving on the Advisory Board for Pathfinder Partners, LLC. Joe is a founding member of the Endowment Leadership Institute at the Jewish Community Foundation.

Kevin Hoyle, is a principal of H3T Legacy Capital, Inc. ("H3T") a real estate investment firm. H3T creates individual single purpose LLCs for the purpose of managing each real estate asset, debt

instrument or group thereof acquired by the fund for investment purposes. H3T's intent is to manage the properties medium to long-term and generate cash flow. Clients of HC may and have been solicited to invest in H3T.

A conflict of interest exists due to Kevin Hoyle's involvement with both HC and H3T. However, HC believes it has minimized this conflict by removing Kevin Hoyle from the initial and ongoing due diligence process of H3T and by removing the HoyleCohen Advisory Fee from any assets placed in H3T.

In addition to acting as investment manager to EIF as disclosed above, HC is also the managing member. HC spends less than 10% of its time engaging in activities to support the administration of EIF.

HC is part of the Focus Financial Partners, LLC ("Focus") network. As such, HC is a wholly-owned subsidiary of Focus Operating, LLC, which is a wholly-owned subsidiary of Focus Financial Partners, LLC ("Focus"). Focus also owns other registered investment advisers, broker-dealers, pension consultants, insurance firms, and other financial service firms (the Focus Partners), as listed in HC's Form ADV Part 1 Schedule D. The Focus Partners provide wealth management, benefit and investment consulting services, serving individuals, families, employers, and institutions. Some Focus Partners also manage or advise limited partnerships, private funds or limited liability companies as disclosed on their respective Form ADV Schedule Ds.

HC's clients are not solicited to invest in any other Focus Partners' advisory services, and generally Focus Partners do not recommend securities, services, or other investment products of other Focus Partner firms, unless so disclosed on their respective Form ADVs and with the clients' consent, nor are any transactions executed through another Focus Partner's affiliated broker dealer. Further, the Focus Partners do not market their services or share client information amongst each other without prior client consent. Management of other Focus Partners is not involved in the management of HC.

A list of the related person investment advisers and broker dealers can be found on HC's Form ADV Part 1 Schedule D and additional information about Focus can be found at [www.focusfinancialpartners.com](http://www.focusfinancialpartners.com).

## Item 11 – Code of Ethics

HC has adopted a written Code of Ethics which incorporates an insider trading policy. The code establishes a standard of conduct and requires compliance with federal securities laws. The code also addresses personal trading and requires personnel to report personal securities holdings and transactions to the Chief Compliance Officer of the firm. HC will provide a copy of the Code of Ethics to any client or prospective client upon written request to HC's Chief Compliance Officer, Mark Delfino, at our main office address.

Managing Directors, employees and IARs of HC may buy and sell securities and other investment products that may also be recommended to its clients. HC Managing Directors, employees and IARs may undertake personal investment activities in direct opposition to recommendations made to clients. HC does not generally provide specific advice regarding common stocks. HC does provide advice regarding mutual fund and ETF selection. Mutual fund prices are set by net asset value and not by a bid-offer market. In addition, HC's volume of ETFs is minimal and as such, HC's personnel investment activity should have no measurable short-term affect on pricing.

It is HC's policy that the Firm will not affect any principal or agency cross securities transactions for client accounts. HC will also not cross trades between client accounts. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client. A principal transaction may also be deemed to have occurred if a security is crossed between an affiliated private fund and another client account. An agency cross transaction is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the advisory client and for another person on the other side of the transaction.

The following are some of the provisions within the Code of Ethics related specifically to insider trading: (1) restricting and/or monitoring trading on those securities of which HC's employees may have non-public information, (2) requiring all of HC's employees to conduct their trading through a specified broker or reporting all transactions promptly to HC, and (3) monitoring the securities trading of the firm and its employees and associated persons.

## Item 12 – Brokerage Practices

HC has established relationships with Charles Schwab and TD Ameritrade. Clients are requested to transfer the assets they wish to place under management to one of these firms to act as custodian. HC regularly reviews these programs to ensure that its recommendations are consistent with its fiduciary duty. These trading platforms are essential to HC's service arrangements and capabilities, and HC may not accept clients who direct the use of other brokers. For mutual fund, ETF and individual bond transactions, HC will place all client trades with the custodian selected by the client. HC has evaluated Schwab & TD Ameritrade and believes that each, for mutual fund, ETF and limited individual bond transactions, will provide HC clients with a blend of execution services, commission costs and professionalism that will assist HC in obtaining best execution for transactions. On at least an annual basis HC performs a review of these custodians against other peer firms to confirm that (for these transactions) clients are receiving best execution. For participating in the institutional adviser platforms maintained by Schwab & TD Ameritrade, HC receives certain benefits (please see the disclosure under Item 14 of this Brochure).

HC has also established a direct relationship with American Funds to act as custodian for some client 529 Plan accounts. When the custodian receives sufficient assets and the client and HC have agreed upon the investment strategy, HC will begin management of the client's account and begin initiating transactions as appropriate. We may also establish direct relationships with others from time to time as we see fit.

HC has entered into a contractual relationship with First Mercantile Trust Company wherein HC will act as a servicing firm and will provide investment advisory services under the terms and provisions of the service agreement executed by and between HC and First Mercantile Trust Company.

When trading client accounts, errors may periodically occur. HC's policy is for clients to be made whole should any error caused by HC occur. Errors may also result in gains in client accounts, in which case the client may choose to maintain the trade and retain the gains or reverse the trade and the custodian would then retain the gains that would have occurred in the client account as a result of the error. HC's policy is meant to ensure clients are, at a minimum, placed in the position intended absent any error. Clients are requested to review the disclosure document of each sub-adviser utilized by HC for complete information on the brokerage practices of such firms.

## **Item 13 – Review of Accounts**

### **Reviews:**

Transactional client account detail is examined daily by client services, operations and/or outside contracted personnel in order to identify inconsistencies and review the accuracy of securities trades, income distributions, cash balances, deposits or withdrawals. These personnel use an electronic download from the client's custodian and software-based accounting system to reconcile accounts. Client services personnel make no investment decisions or recommendations to clients. In the course of the daily review, if any of these personnel identify one of the above changes to an account, he or she will consult with an IAR.

Investment Advisor Representatives review client accounts on a quarterly basis or as needed and manage anywhere between 50 and 150 client relationships. HC investment model accounts for clients are rebalanced as necessary to bring the asset allocation back in line with the current tactical asset allocation or when the client's investment objectives have shifted. IARs conduct periodic financial reviews with the client at agreed upon intervals and/ or as needed – no less than annually. The client's objectives are updated as needed after these periodic conversations and meetings.

The HC Investment Committee conducts periodic reviews of the HoyleCohen model tactical allocations, mutual funds, ETFs, third party managers, the fixed income market, the state of its mortgage program and all supplemental investment programs. The Committee may suggest changes or reallocation for HoyleCohen portfolio models and use of the supplemental investment programs. Mutual funds and ETFs will be selected or replaced according to HC's review of their success at meeting the investment objectives for which they were selected. Each IAR then assesses the Committee's recommendations for applicability to each client situation. Global asset allocation, potential tax ramifications of investment changes and client specific variables are considered prior to the implementation of any portfolio adjustments.

### **Reports:**

In addition to the statements and confirmations of transactions that investment management clients receive from their account custodian, HC prepares and sends to each client a quarterly report that provides the market value of assets under management, advisory fees paid, and YTD investment performance.



HC will provide no regular reports for Financial Planning/Consulting clients. These clients receive such reports as specifically contracted for or as necessary to document recommendations and a plan.

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

As disclosed under Item 12 above, HC participates in Charles Schwab’s Schwab Advisor Services platform and TD Ameritrade’s institutional programs and recommends Schwab or TD Ameritrade to clients for custody and brokerage services. Through these services, HC receives real-time client account information, electronic download of transactions, balances and positions, and the ability to directly debit client fees. HC also receives software and services, including reductions in conference and seminar fees, from these service providers.

Schwab and TD Ameritrade each respectively provide HC with access to services not available to retail investors. These services generally are available to independent investment advisers on an unsolicited basis at no charge to the advisers. These services benefit HC but may not benefit its clients’ accounts. Many of the products and services assist HC in managing and administering clients’ accounts. These include software and other technology that provide access to client account data (such as trade confirmations and account statements), facilitate trade execution (and allocation of aggregated trade orders for multiple client accounts), provide research, pricing information and other market data, facilitate payment of HC’s fees from its clients’ accounts, and assist with back-office functions, recordkeeping and client reporting. Many of these services generally may be used to service all or a substantial number of HC’s accounts. Recommended brokers also make available to HC other services intended to help HC manage and further develop its business enterprise. These services include consulting, publications and conferences on practice management, information technology, business succession, regulatory compliance, and marketing. HC does not, however, enter into any commitments with the brokers for transaction levels in exchange for any services or products from brokers. While as a fiduciary, HC endeavors to act in its clients’ best interests, HC’s requirement that clients maintain their assets in accounts at Schwab or TD Ameritrade may be based in part on the benefit to HC of the availability of some of the foregoing products and services and not solely on the nature, cost or quality of custody and brokerage services provided by the brokers.

TD Ameritrade may also have paid for business consulting and professional services received by HC’s related persons. Some of the products and services made available by TD Ameritrade through the program may benefit HC but may not benefit its client accounts. These products or services may assist HC in managing and administering client accounts, including accounts not maintained at TD Ameritrade. Other services made available by TD Ameritrade are intended to help HC manage and further develop its business enterprise. The benefits received by HC or its personnel through participation in the program do not depend on the amount of brokerage transactions directed to TD Ameritrade. As part of its fiduciary duties to clients, the firm

endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the receipt of economic benefits by HC or its related persons in and of itself creates a potential conflict of interest and may indirectly influence the HC's choice of TD Ameritrade for custody and brokerage services.

HC participates in the advisor program (the "Program") offered by TD Ameritrade Institutional. TD Ameritrade Institutional is a division of TD Ameritrade Inc., member FINRA/SIPC/NFA ("TD Ameritrade"), an unaffiliated SEC-registered broker-dealer and FINRA member. TD Ameritrade offers to independent investment advisors services which include custody of securities, trade execution, clearance and settlement of transactions. HC receives some benefits from TD Ameritrade through its participation in the Program.

There is no direct link between HC's participation in the program and the investment advice we give to clients, although HC receives economic benefits through its participation in the program that are typically not available to TD Ameritrade retail investors. These benefits include the following products and services (provided without cost or at a discount): receipt of duplicate client statements and confirmations; research related products and tools; consulting services; access to a trading desk serving HC participants; access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to client accounts); the ability to have advisory fees deducted directly from client accounts; access to an electronic communications network for Client order entry and account information; access to mutual funds with no transaction fees and to certain institutional money managers; and discounts on compliance, marketing, research, technology, and practice management products or services provided to HC by third party vendors. TD Ameritrade may also have paid for business consulting and professional services received by HC's related persons. Some of the products and services made available by TD Ameritrade through the program may benefit HC but may not benefit its client accounts. These products or services may assist HC in managing and administering client accounts, including accounts not maintained at TD Ameritrade. Other services made available by TD Ameritrade are intended to help HC manage and further develop its business enterprise. The benefits received by HC or its personnel through participation in the program do not depend on the amount of brokerage transactions directed to TD Ameritrade. As part of its fiduciary duties to clients, HC endeavors at all times to put the interests of its clients first.

HC may receive client referrals from TD Ameritrade through its participation in TD Ameritrade's AdvisorDirect program. In addition to meeting the minimum eligibility criteria for participation in AdvisorDirect, HC may have been selected to participate in AdvisorDirect based on the amount and profitability to TD Ameritrade of the assets in, and trades placed for, client

accounts maintained with TD Ameritrade. TD Ameritrade is a discount broker-dealer independent of, and unaffiliated with HC and there is no employee or agency relationship between them. TD Ameritrade has established AdvisorDirect as a means of referring its brokerage customers and other investors seeking fee-based personal investment management services or financial planning services to independent investment advisors. TD Ameritrade does not supervise HC and has no responsibility for HC's management of client portfolios or HC's other advice or services. HC pays TD Ameritrade an on-going fee for each successful client referral. This fee is usually a percentage (not to exceed 25%) of the advisory fee that the client pays to HC ("Solicitation Fee"). HC will also pay TD Ameritrade the Solicitation Fee on any advisory fees received by HC from any of a referred client's family members, including a spouse, child or any other immediate family member who resides with the referred client and hired HC on the recommendation of such referred client. HC will not charge clients referred through AdvisorDirect any fees or costs higher than its standard fee schedule offered to its clients or otherwise pass Solicitation Fees paid to TD Ameritrade to its clients. For information regarding additional or other fees paid directly or indirectly to TD Ameritrade, please refer to the TD Ameritrade AdvisorDirect Disclosure and Acknowledgement Form.

HC's participation in AdvisorDirect raises potential conflicts of interest. TD Ameritrade will most likely refer clients through AdvisorDirect to investment advisors that encourage their clients to custody their assets at TD Ameritrade and whose client accounts are profitable to TD Ameritrade. Consequently, in order to obtain client referrals from TD Ameritrade, HC may have an incentive to recommend to clients that the assets under management by HC be held in custody with TD Ameritrade and to place transactions for client accounts with TD Ameritrade. In addition, HC has agreed not to solicit clients referred to them through AdvisorDirect to transfer their accounts from TD Ameritrade or to establish brokerage or custody accounts at other custodians, except when its fiduciary duties require doing so. HC's participation in AdvisorDirect does not diminish its duty to seek best execution of trades for client accounts.

Schwab Advisor Services (formerly called Schwab Institutional) is Schwab's business serving independent investment advisory firms like us. They provide us and our clients with access to its institutional brokerage – trading, custody, reporting and related services – many of which are not typically available to Schwab retail customers. Schwab also makes available various support services. Some of those services help us manage or administer our clients' accounts while others help us manage and grow our business. Schwab's support services are generally available on an unsolicited basis (we don't have to request them) and at no charge to us as long as we keep a total of at least \$10 million of our clients' assets in accounts at Schwab. If we have less than \$10 million in client assets at Schwab, it may charge us quarterly service fees of \$1,200. Here is a more detailed description of Schwab's support services:

Schwab's institutional brokerage services include access to a broad range of investment products, execution of securities transactions, and custody of client assets. The investment products available through Schwab include some to which we might not otherwise have access or that would require a significantly higher minimum initial investment by our clients. Schwab's services described in this paragraph generally benefit you and your account.

Services that May Not Directly Benefit You. Schwab also makes available to us other products and services that benefit us but may not directly benefit you or your account. These products and services assist us in managing and administering our clients' accounts. They include investment research, both Schwab's own and that of third parties. We may use this research to service all or some substantial number of our clients' accounts, including accounts not maintained at Schwab. In addition to investment research, Schwab also makes available software and other technology that:

- provide access to client account data (such as duplicate trade confirmations and account statements);
- facilitate trade execution and allocate aggregated trade orders for multiple client accounts;
- provide pricing and other market data;
- facilitate payment of our fees from our clients' accounts; and
- assist with back-office functions, recordkeeping and client reporting.

Services that Generally Benefit Only Us. Schwab also offers other services intended to help us manage and further develop our business enterprise. These services include:

- Educational conferences and events;
- Technology, compliance, legal, and business consulting;
- Publications and conferences on practice management and business succession; and
- Access to employee benefits providers, human capital consultants and insurance providers.

Schwab may provide some of these services itself. In other cases, it will arrange for third-party vendors to provide the services to us. Schwab may also discount or waive its fees for some of these services or pay all or a part of a third party's fees. Schwab may also provide us with other benefits such as occasional business entertainment of our personnel.

### **Our Interest in Schwab's and TD Ameritrade's Services**

The availability of these services from Schwab and TD Ameritrade benefits us because we do not have to produce or purchase them. We don't have to pay for Schwab or TD Ameritrade

services so long as we keep a defined dollar minimum in accounts at Schwab. The minimum may give us an incentive to request that you maintain your account with Schwab or TD Ameritrade based on our interest in receiving services that benefit our business rather than based on your interest in receiving the best value in custody services and the most favorable execution of your transactions. This is a potential conflict of interest. We believe, however, that our selection of Schwab and TD Ameritrade as custodian is in the best interests of our clients.

## **Item 15 – Custody**

HC does not act as Trustee for any advisory client account, and as such does not maintain custody of any client funds or securities (with the sole exception of the EIF Fund, as detailed below). Clients receive at least quarterly statements from the broker dealer, bank or other qualified custodian that holds and maintains client's investment assets. HC urges you to carefully review such statements and compare such official custodial records to the account statements that we may provide to you. Our statements may vary slightly from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

As the Managing Member of the EIF Fund, HC is considered to have custody over EIF Fund assets. HC has engaged an independent public accountant to conduct an annual surprise exam of investor funds and securities to comply with Rule 206(4)-2 of the Investment Advisers Act of 1940.

## **Item 16 – Investment Discretion**

HC will determine which securities to purchase and in what amount in discretionary accounts under its direct management. Third-party managers or sub-advisers will determine which securities to purchase and in what amount in client accounts that they manage. Any restrictions or limitations to HC's discretionary authority as defined by a client are established on a client-by-client basis.

## **Item 17 – Voting Client Securities**

The firm will not vote proxy statements on behalf of advisory clients. It is each client's responsibility to vote proxies and participate in corporate actions. Clients will receive applicable proxies directly from the issuer of securities held in clients' investment portfolios.

## **Item 18 – Financial Information**

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about HC's financial condition. HC has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.