

## **Form ADV Part 2A Disclosure Brochure**

### **Item 1 – Cover Page**

Hanson McClain, Inc. d/b/a Hanson McClain Advisors, Hanson McClain  
Retirement Plan Services and Hanson McClain Investment Advisors

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Date of Brochure: January 2014

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This brochure provides information about the qualifications and investment advisory business practices of Hanson McClain Advisors. If you have any questions about the contents of this brochure please contact us at (916) 482-2196 or [info@hansonmcclain.com](mailto:info@hansonmcclain.com). 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 our investment advisory business is also available on the Internet at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can view our information on this website by searching for “Hanson McClain Advisors”. You can also search using the firm’s CRD numbers. The CRD number for the firm is **111167**.

\*Registration as an investment advisor does not imply a certain level of skill or training.

## **Item 2 – Material Changes**

This disclosure brochure dated January 2014 is the first edition of the brochure prepared by us specifically for our third-party money manager and/or sub-advisor services. Such services are provided to clients of unaffiliated investment advisors. In the future, this item will discuss only specific material changes that are made to the disclosure brochure and provide readers with a summary of such changes. We will also reference the date of the last annual update of this disclosure brochure.

We will ensure that you receive a summary of any material changes to this and subsequent disclosure brochures within 120 days after our firm's fiscal year ends. Our firm's fiscal year ends on December 31, so you will receive the summary of material changes no later than April 30 each year. At that time we will also offer or provide a copy of the most current disclosure brochure. We may also provide other ongoing disclosure information about material changes as necessary.

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#### Item 4 – Advisory Business

Hanson McClain, Inc. doing business as Hanson McClain Advisors, Hanson McClain Retirement Plan Services and Hanson McClain Investment Advisors (also referred to as “HMA” throughout this document) is an investment advisor registered with the United States Securities and Exchange Commission.

- Hanson McClain Advisors has been registered as an investment advisor since June 21, 1996.
- The firm is owned and controlled by Hanson McClain Group which is a holding company that also owns our affiliated broker/dealer Hanson McClain Retirement Network, LLC doing business as Hanson McClain.
  - The controlling owners of Hanson McClain Group are **Scott Hanson**, Co-Chief Executive Officer and **Pat McClain**, Co-Chief Executive Officer.
- The firm’s Supervisors and Executive Officers include:
  - Co-Chief Executive Officers - Scott T. Hanson and Patrick C. McClain,
  - President - Steven T. Burnett,
  - Chief Operating Officer – Pete Engelken,
  - Chief Compliance Officer - Corey C. Gamble,
  - Director of Corporate Operations/Secretary - Julia C. Frise, and
  - Chief Financial Officer - Matthew E. Russell.

This disclosure brochure provides important information about our Firm, our services, and fee arrangements that are provided to clients and investors that do not work directly with HMA. This brochure is intended for clients engaging our services on a third-party money manager and/or sub-advisor basis to clients of unaffiliated investment advisors.

If you have received this disclosure brochure, it is because your investment advisor has recommended or suggested Hanson McClain Advisors, and their Pathway Accumulation Strategies, as a third-party money manager or sub-advisor to manage a portion of your investable assets. It is important that you read the information contained within this disclosure brochure carefully and speak with your investment advisor if you have any questions about our services or arrangements.

Hanson McClain, Inc. doing business under the names Hanson McClain Advisors, Hanson McClain Retirement Plan Services and Hanson McClain Investment Advisors maintains a significant retail business. Through such engagements, our advisory personnel work directly with the end client on a one-on-one basis not through the use of an introducing advisor. We have developed separate disclosure brochures for our direct retail clients that fully describe the services and fee arrangements offered for those client arrangements. Because you are working with us through an introducing advisor, you are not eligible to receive services offered to our direct retail clients. This brochure describes only the services which pertain to our arrangements with clients of introducing advisors.

#### **Client Assets Managed by Hanson McClain Advisors**

The amount of clients assets managed by HMA totaled \$1,612,713,327.07 as of December 31, 2013. \$1,506,958,511.36 is managed on a discretionary basis and \$105,754,815.71 is managed on a non-discretionary basis. In addition, our firm serves as a consultant to an additional \$7,506,495.

### **Advisory Services**

Hanson McClain Advisors offers fee-based investment management services. Clients access Hanson McClain Advisors' investment management services in several ways:

#### ***I. Pathway Accumulation Strategies***

We offer our Pathway Accumulation Strategies services to clients through the use of unaffiliated independent investment advisors contractually engaged by Hanson McClain Advisors (collectively referred to as "Solicitor"). We can also serve as sub-advisor to an unaffiliated independent investment advisor. Under these arrangements, each account is held at an unaffiliated brokerage firm or custodian selected by the Solicitors. We do not recommend any custodial relationships for our Solicitors.

We are responsible for directing the investment of the portion of your funds and securities assigned to our Firm using a limited power of attorney granted to Hanson McClain Advisors by you in our Investment Management Agreement. We do not receive compensation from commissions or other charges levied by the account's brokerage or custodial firm. We are compensated solely by the investment management fee as detailed in our Investment Management Agreement (see Item 5 of this brochure for more details regarding our fee procedures).

#### **Tailoring Advisory Services to Individual Needs of Clients**

The investment strategy and management program used to manage your account is always based on your unique and individual investment needs, as expressed in our Pathway Portfolio Selection Questionnaire (PPSQ) and portfolio strategy selection or selections. Hanson McClain Advisors collects financial and demographic information in our PPSQ which may assist you with identifying your financial objectives and risk tolerance. You will receive information the investment programs available from Hanson McClain Advisors that may be most beneficial and appropriate given your objectives in light of your responses.

Upon receipt of all associated paperwork, Hanson McClain Advisors will conduct a final review of the client's selection to assess whether it is appropriate given the client's stated risk tolerance and objectives. Hanson McClain Advisors is expressly authorized to rely on the information provided in the PPSQ without further verification. Hanson McClain Advisors must be notified of material changes in financial circumstances or investment goals that warrant changes to the portfolio strategy selected for an account.

Although the investment portfolios offered via the Pathway Accumulation Strategies are designed to meet the objectives of general investment strategies (i.e. aggressive versus conservative strategies), clients have the ability to impose reasonable restrictions on the accounts we manage.

Prior to Hanson McClain Advisors providing investment management services, you are required to enter into a formal Investment Management Agreement with Hanson McClain Advisors setting forth the terms and conditions under which we will manage your assets and a separate custodial/clearing agreement with the broker-dealer/custodian.

Hanson McClain Advisors will allocate investment management assets of its client accounts, on a discretionary basis, among one or more of its proprietary investment management portfolio strategies.

Additional details and disclosures regarding Hanson McClain Advisors' investment management portfolio strategies are provided to clients via separate documentation prior to or at the time a portfolio strategy is determined. Basic information is provided at Item 8 of this brochure. Hanson McClain Advisors' proprietary portfolio strategies have been designed to comply with the provisions set forth under Rule 3a-4 of the Investment Company Act of 1940. Rule 3a-4 provides similarly managed investment programs, such as Pathway Accumulation Strategies, with a non-exclusive safe harbor from the definition of an investment company. In accordance with Rule 3a-4, the following disclosure is specifically applicable to Hanson McClain Advisors' management of client assets:

1. *Initial Interview* – at the opening of the account, Hanson McClain Advisors shall obtain from the client information sufficient to determine the client's financial situation and investment objectives;
2. *Individual Treatment* - every client's account is managed on the basis of the client's financial situation and investment objectives;
3. *Quarterly Notice* – at least quarterly, Hanson McClain Advisors shall notify the client to advise Hanson McClain Advisors whether the client's financial situation or investment objectives have changed, or if the client wants to impose and/or modify any reasonable restrictions on the management of the client's account;
4. *Annual Contact* – at least annually, Hanson McClain Advisors shall contact the client to determine whether the client's financial situation or investment objectives have changed, or if the client wants to impose and/or modify any reasonable restrictions on the management of the client's account.
5. *Consultation Available* – Hanson McClain Advisors shall be reasonably available to consult with the client relative to the status of client's account;
6. *Quarterly Statement* – clients are provided with a statement, at least quarterly, that is prepared by the account custodian and delivered to the client directly from the custodian. That statement shall contain a description of all activity in the client's account during the preceding period. The client may also receive a quarterly performance report prepared by Hanson McClain Advisors. All clients are urged by Hanson McClain Advisors to compare performance reports received against the account statements prepared and delivered by the custodian;
7. *Ability to Impose Restrictions* – clients have the ability to impose reasonable restrictions on the management of the client's account, including the ability to instruct Hanson McClain Advisors not to purchase certain specific securities or mutual funds;
8. *No Pooling* – the client's beneficial interest in a security does not represent an undivided interest in all the securities held by the custodian, but rather represents a direct and beneficial interest in the securities which comprise the client's account;
9. *Separate Account* - a separate account is maintained for the client with the Custodian; and
10. *Ownership* – each client retains ownership of the account (e. g. right to withdraw securities or cash, exercise or delegate proxy voting, and receive transaction confirmations). In order to participate in our Pathway Accumulation Strategies, clients must generally establish accounts at a

qualified custodian Hanson McClain that Hanson McClain Advisors has an agreement with. Please read Item 12 of this Brochure for more information regarding our brokerage practices.

Pathway Accumulation Strategies may be used for self-directed retirement accounts such as 401(k), 403(b) and 457 accounts. In these situations, accounts will be managed according to investment models developed by Hanson McClain Advisors that are comprised exclusively of shares of the following Pathway Advisors Funds.

- Pathway Advisors Conservative Fund (PWCNX)
- Pathway Advisors Growth and Income Fund (PWGFX)
- Pathway Advisors Aggressive Growth Fund (PWAGX)

Through this platform, Hanson McClain Advisors will recommend portfolios comprised of a mix of 1 – 3 of the Pathway Advisors Funds. The Pathway Advisors Funds are managed in accordance with general investment models developed by our Investment Management and Research team. Accumulation models are recommended for clients solely on a non-discretionary basis. This means we will discuss with you the positives and negatives of investing in the Pathway Advisors Funds. Those conflicts of interest include, but may not necessarily be limited to:

- To the extent the Funds have poor performance, because of our involvement with the Funds, HMA may be more reluctant or slower to move your money out of the Funds than we will be for your investments in other securities.
- Hanson McClain Advisors receives a 1.00% annual fee based on shareholder assets in the Funds.
- Unlike our Individual Managed Asset Program, the Funds are registered investment companies and are not managed based on your individual needs and unique investment circumstances.
- Although, HMA will continuously monitor and review the performance of your assets under management, investing in the Funds is a long-term investment strategy (buy-and-hold) and you should expect to maintain your investment in the Funds for the long-term.

If your account is invested in one of the Pathway Advisors Funds, you will be charged a total management fee of 1.00% which will be waived in whole or in part as an offset to the amount of fees earned by Hanson McClain Advisors for the investment management services provided to the Pathway Advisors Funds.

In performing its services, Hanson McClain Advisors is not required to verify any information received from the client or from the client's other professionals, and is expressly authorized to rely on the information provided. It remains the client's responsibility to promptly notify us if there is ever any change in the client's financial situation or investment objectives for the purpose of reviewing, evaluating, or revising previous recommendations and/or services. A copy of this Brochure will be provided to each client before, or at the same time, the Investment Management Agreement is executed. Hanson McClain Advisors' clients are advised to promptly notify us if there are ever any changes in their financial situation or investment objectives, or if they wish to impose any reasonable restrictions upon Hanson McClain Advisors' management services.

## ***II. Sponsored Investment Management Platforms or Investment Wrap Programs (Platform)***

Clients may also gain access to Hanson McClain Advisors investment management services through programs or investment platforms sponsored by unaffiliated investment advisors and/or broker-dealers. These programs may be wrap-fee programs, lists of available investment managers, or general asset allocation programs. Through these programs or platforms, clients must establish an account directly with the program sponsor. Hanson McClain Advisors is then available to clients for selection as an independent money manager. Many of the terms and conditions of these programs are determined by the program sponsor. Through these programs, Hanson McClain Advisors will be available to clients for selection as an independent money manager.

Clients must establish an account directly with the program sponsor. All applicable contracts and account paperwork will be completed by the client with the assistance of the program sponsor representative. The program sponsor representative will obtain the necessary financial data from the client, assist the client in determining suitability, and help the client to set the appropriate investment objectives. The program sponsor will then provide all necessary information to Hanson McClain Advisors. The program sponsor representative will meet periodically to review the client's financial situation, investment objectives, and current portfolios and then make any necessary changes to the Hanson McClain Advisors portfolio strategy selection, and notify Hanson McClain Advisors of any changes to be made. A representative of the program sponsor will be responsible for providing the Hanson McClain Advisors disclosure brochure. Depending on the money manager program, a Hanson McClain Advisors client agreement may also be provided to the client.

Hanson McClain Advisors will have the power and authority, as granted by the client through the program sponsor contract, to make investment decisions over the portion of the client's assets delegated to Hanson McClain Advisors. However, Hanson McClain Advisors will not be responsible for executing transactions in the client's account. Hanson McClain Advisors will provide all trade instructions to the sponsor of the program who will be responsible for executing the recommendations of Hanson McClain Advisors.

Accounts established through a program sponsored by an unaffiliated investment advisor and/or broker-dealer will be held and cleared through a broker-dealer selected by the program sponsor, pursuant to a relationship between the sponsor and the clearing broker-dealer. The program sponsor reserves the right to designate alternative clearing and custody arrangements similar to those of its preferred clearing broker-dealer. Physical custody of funds and securities is maintained by the various clearing firms, not by Hanson McClain Advisors. As is the case with Select Portfolio Management Program accounts, clients accessing Hanson McClain Advisors through a Platform have the ability to impose reasonable restrictions on their accounts.

## ***III. Pathway Advisors Mutual Funds***

Hanson McClain Advisors provides investment advice and management services to three affiliated mutual funds.

- Pathway Advisors Conservative Fund (PWCNX)
- Pathway Advisors Growth and Income Fund (PWGFX)
- Pathway Advisors Aggressive Growth Fund (PWAGX)

The three funds are referred to collectively as the "Funds" throughout this brochure and are mutual funds registered under the Investment Company Act of 1940. The Funds are a series of



Professionally Managed Portfolios structured under Financial Investors Trust (the "Trust"), an open-end, management company organized as a Delaware statutory trust. The Funds administrator, transfer agent and fund accountant is ALPS Fund Services, Inc. The distributor of the Funds is ALPS Distributors, Inc.

ALPS Fund Services, Inc. and ALPS Distributors, Inc. are not related entities or affiliated with Hanson McClain Advisors. However, some of Hanson McClain Advisors' employees have been hired to wholesale the Funds to financial professionals, such as registered representatives of broker-dealers and investment advisor representatives of unaffiliated investment advisory firms. In order to wholesale and help distribute the Funds, Hanson McClain Advisors' employees engaging in Fund distribution services are licensed as registered representatives of our affiliated broker/dealer Hanson McClain Retirement Network, LLC, which is a registered broker-dealer with the SEC and member FINRA/SIPC.

Although Hanson McClain Advisors is not technically the Funds' administrator and Hanson McClain Advisors is not affiliated with the Trust, Hanson McClain Advisors has an incentive and inherent conflict of interest to recommend and favor the Funds for the following reasons:

- Hanson McClain Advisors' officers and owners are personally responsible for the formation (including covering a significant portion of the start-up costs) of the Funds.
- Hanson McClain Advisors is the investment advisor to the Funds and receives a management fee for its services. Please refer to Item 5 of this brochure for a description of Hanson McClain Advisors' fees. Increases in Fund assets will result in increases in the management fee paid to Hanson McClain Advisors.

Hanson McClain Advisors furnishes the Funds with certain administrative services and provides most of the personnel needed to fulfill Hanson McClain Advisors' obligations as the investment advisor.

The Funds are the only registered investment company clients of Hanson McClain Advisors and are mutual funds domiciled in the United States. Hanson McClain Advisors maintains limited power of attorney to act on a discretionary basis when managing the Funds. Hanson McClain Advisors is responsible for investment selection, asset allocation, and all asset management decisions regarding the Funds. Fund assets are deposited and held at Union Bank, N.A., the qualified custodian of Fund assets and securities.

Hanson McClain Advisors manages the Funds in accordance with their stated investment objectives and investment policies which are outlined and detailed in the Funds' Prospectus. All investors in the Funds will receive or have available a copy of the prospectus.

- The Pathway Advisors Conservative Fund seeks total return a primary emphasis on income with a secondary emphasis on growth of capital.
- The Pathway Advisors Growth and Income Fund seek total return through growth of capital and income.
- The Pathway Aggressive Growth Fund seeks total return through a primary emphasis on growth with a secondary emphasis on income.

Shareholders need to review the Funds' prospectus for a complete description of the Funds' investment objectives, policies and operational structure.

### **Types of Investments**

When managing client accounts, we typically construct each client's account holdings using low-fee mutual funds and no-load mutual funds to build diversified portfolios. It is not Hanson McClain Advisors' typical investment strategy to attempt to time the market but we may increase cash holdings modestly as deemed appropriate, based on your risk tolerance and our expectations of market behavior. In addition, we may hold some of the following types of securities in client portfolios.

- Exchange-listed securities
- Securities traded over-the-counter
- Exchange Traded Funds (ETFs)
- Foreign issues
- Corporate debt securities (other than commercial paper)
- Certificates of deposit
- Municipal securities
- United States government securities

### **Participation in Wrap Fee Programs**

Although we do not sponsor wrap-fee programs, we manage client accounts through both wrap-fee programs and traditional management programs. Under a wrap-fee program, advisory services and transaction services are provided for one fee. This is different from traditional management programs whereby our services are provided for a fee, but transaction services are billed separately on a per-transaction basis. From an investment management perspective, there is not a fundamental difference in the way we manage wrap-fee accounts versus traditional management accounts. The only significant difference is the way in which transaction services are paid.

## **Item 5 – Fees and Compensation**

The amount, calculation, and method of deducting our investment management fees will vary depending on the method you use to access our investment management services. Brokerage commissions and/or transaction ticket fees charged by the custodian are generally billed directly to your account. However, your Solicitor or Platform sponsor may decide to absorb transaction costs and not charge your account separately. We do not receive any portion of commissions or fees from the Solicitor, Platform sponsor, or the custodian on your account.

In addition, you may incur certain charges imposed by third parties other than Hanson McClain Advisors in connection with investments made through your account, including but not limited to, mutual fund sales loads, 12b-1 fees and surrender charges, and IRA/qualified retirement plan fees. Management fees charged by Hanson McClain Advisors are separate and distinct from the fees and expenses charged by investment company securities that may be held in your account. A description of these fees and expenses are available in each investment company security's prospectus.

### **I. Pathway Accumulation Strategies**

Hanson McClain Advisors' annual fee for the Pathway Accumulation Strategies is determined by the fee table shown in each client's Investment Management Agreement. The total management fee includes the fee paid to Hanson McClain Advisors from the table. The total investment management fee, therefore, covers both Hanson McClain Advisors' Management Fee as well as any fee that may be paid to the solicitor.

Clients may pay more or less to obtain Hanson McClain Advisors' investment management services than do other clients. In such situations, where the client pays more, any additional compensation may be paid to the Solicitor or a Solicitor representative in the role as an unaffiliated investment adviser or investment adviser representative. Such arrangements, and their terms and conditions, are exclusively determined between the client and the Solicitor or the Solicitor representative. Hanson McClain Advisors is not a party to such arrangements.

The annual investment management fee rate charged varies depending upon the market value of assets under management and the specific type of investment management services to be rendered. Fees are typically deducted directly from the account on a quarterly basis. However, you cannot negotiate the portion of investment management fees retained by Hanson McClain Advisors.

If your account is invested using our Accumulation Strategies and thus invested in one of the Pathway Advisors Funds, you will be charged a total management fee of up to 1.00% of assets under management which may be waived, in whole or in part as an offset to the amount of fees earned by Hanson McClain Advisors for the investment management services provided to the Pathway Advisors Funds. Your Solicitor will receive a solicitor fee from Hanson McClain Advisors which shall be 0.50 basis points of the total assets you have invested in the Accumulation Strategies.

Accounts are billed using either a tiered fee schedule or a single fee rate. For accounts billed on a tiered fee schedule, multiple accounts from a single client household may be combined for the purpose of meeting breakpoints of a fee schedule.

Annual management fees are divided, calculated and billed quarterly in arrears based on the Average Daily Balance (ADB) of the client's assets under management for the previous period. ADB does not take into account un-priced securities, nor does it count days when the account has zero balance. Fees are calculated based on all investments held or connected with the account and include money market and cash balances. However, Hanson McClain Advisors may exclude from the fee calculation certain portions that are transferred in to a managed account as an accommodation or are not actively managed by Hanson McClain Advisors. Accounts opened mid-period will be charged an initial management fee at the end of the quarter, which is pro-rated for the number of days that the account was open in the first period.

Both Hanson McClain Advisors' Investment Management Agreement and the broker-dealer/custodian's custodial/clearing agreement will authorize the broker-dealer/custodian to accept instructions from Hanson McClain Advisors to debit the account for the amount of our investment management fee and to directly remit that management fee to Hanson McClain Advisors. The authority for Hanson McClain Advisors to calculate and have fees deducted directly from client accounts is a form of custody (as defined by the SEC under Rule 206(4)-2 of the Investment Advisers Act of 1940). Please read Item 15 of this Brochure for more information regarding Custody.

You can cancel our management services at any time for any reason by providing us with written notice to cancel services. You must then forward to us the written request to terminate our services. In rare situations, we may determine it is necessary to terminate a client arrangement. In these situations, we provide the client and Solicitor with 30 (thirty) days written notice. Services will be terminated without penalty. Hanson McClain Advisors will cooperate fully in any requests to deliver funds and securities held in the account to another custodian. Transactions in a closed account are subject to broker/dealer-custodian's normal brokerage rates. Termination of services will not affect the liabilities or obligations of the parties arising out of transactions initiated prior to termination.

## **II. Sponsored Investment Management Platforms**

Participants in a platform program will pay an annualized investment management fee to Hanson McClain Advisors generally not to exceed 0.37% of the assets under Hanson McClain Advisors' management. Depending on the program, Hanson McClain Advisors' fee will either be charged in addition to the overall program fee, of up to 0.12%, charged to a client or included in the program fee charged to the client. When Hanson McClain Advisors' annual fee for investment management services is separate from and in addition to the program fee, the fee rate is determined by the fee table shown in each client's Investment Management Agreement with Hanson McClain Advisors. Hanson McClain Advisors' investment management fees are non-negotiable with clients.

In accordance with the program sponsor's billing arrangements, Hanson McClain Advisors may provide the program sponsor, broker-dealer, or account custodian a quarterly invoice. Hanson McClain Advisors' fees are then billed and collected by the program sponsor, broker-dealer, or account custodian and remitted directly to Hanson McClain Advisors. Clients should refer to the program sponsor's disclosure brochure and contract for a full description of all fees and billing arrangements related to the program.

Fees for accounts managed by Hanson McClain Advisors on a broker-dealer's or custodian's platform will be calculated and collected by the platform sponsor and remitted to Hanson McClain Advisors. In those cases, any other fees or costs, such as a platform fee or trading costs, is deducted and retained by the sponsor. Hanson McClain Advisors is not a party to, and does not participate in, such fees.

The process for removing Hanson McClain Advisors as a sub-advisor or money manager on a Platform must comply with the procedures established by the Platform sponsor. Typically, such procedures will be detailed in the Platform client agreement. Therefore, please refer to the Platform agreement and other materials for specific procedures to remove Hanson McClain Advisors as a sub-advisor.

## **III. Pathway Advisors Mutual Funds**

Hanson McClain Advisors is paid an annual fee up to 1.00%) part on the amount of assets under Hanson McClain Advisors' management held in the Pathway Advisors Conservative Fund; Pathway Advisors Growth and Income Fund; and Pathway Advisors Aggressive Growth Fund (the "Funds"). The annual fee is divided and paid to Hanson McClain Advisors monthly based on the average daily net assets of the Funds. Hanson McClain Advisors believes that its fees are competitive with those fees charged by other investment advisers for comparable services; however, Hanson McClain Advisors' fees may be higher or lower than fees charged by other investment advisers.

In addition to Hanson McClain Advisors' management fee, shareholders will pay other annual fund operating expenses such as distribution and service (12b-1) fees, shareholder servicing plan fees, acquired fund fees and expenses, and certain other fees. You should refer to your Fund prospectus for specific information regarding the current fees and expenses applicable to your Fund investment.

However, Hanson McClain Advisors has contractually agreed to waive a portion or all of its management fees and/or pay Fund expenses to ensure that Net Annual Fund Operating Expenses (excluding acquired fund fees and expenses, interest, taxes and extraordinary expenses) do not exceed 2.33% of average daily net assets for the Pathway Advisors Conservative Fund, 2.38% for the Pathway Advisors Growth and Income Fund, and 2.43% for the Pathway Advisors Aggressive Growth Fund. The expense limitation will remain in effect through at least August 31, 2014, and may be terminated only by the Trust's Board of Trustees (the "Board").

If your account is invested using our Accumulation Strategies (as described in Item 8 of this brochure) and thus invested in one of the Pathway Advisors Funds, you will be charged a total management fee of up to 1.00% which will be waived in whole or in part as an offset to the amount of fees earned by Hanson McClain Advisors for the investment management services provided to the Pathway Advisors Funds. Your Solicitor will receive a solicitor fee from Hanson McClain Advisors which shall be 50 (0.50%) basis points of the total assets you have invested in the Accumulation Strategies.

### **Wrap-Fee Arrangements**

To the extent Hanson McClain Advisors portfolios are offered by a custodian or on a platform where some portion of the custodian's fees are wrapped (or bundled), including transaction fees, and Hanson McClain Advisors cannot determine the portion of the wrapped fee that represents transaction fees, the entire wrapped fee reduces both net of fee and gross of fee performance. Hanson McClain Advisors does not estimate trading fees in such cases. Hanson McClain Advisors does not currently sponsor or participate in any wrapped fee arrangements in which Hanson McClain Advisors' management fee cannot be identified as a charge separate from the bundled fee.

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

Item 6 of the Form ADV Part 2 instructions is not applicable to our brochure because we do not charge or accept performance-based fees which can be defined as fees based on a share of capital gains on or capital appreciation of the assets held within a client's account.

## **Item 7 – Types of Clients**

We offer advisory services to:

- Individuals
- Pension and profit sharing plans
- Trusts, estates, or charitable organizations
- Corporations
- The Pathway Advisors Funds

### **Minimum Investment Amount Required**

We require a minimum investment amount of \$25,000 to establish an investment management account. Exceptions to the minimum investment amount may be granted in certain circumstances. The initial investment in a Pathway Advisors Funds is \$2,500. Investors generally may meet the minimum investment amount by aggregating multiple accounts within a Fund. There is no subsequent minimum.

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

### **Method of Analysis in Formulating Investment Advice**

HMA uses **Fundamental** analysis in formulating investment advice. This is a method of evaluating a security by attempting to measure its intrinsic value by examining related economic, financial and other qualitative and quantitative factors. Fundamental analysts attempt to study everything that can affect the security's value, including macroeconomic factors (like the overall economy and industry conditions) and individually specific factors (like the financial condition and management of companies). The end goal of performing fundamental analysis is to produce a value that an investor can compare with the security's current price in hopes of figuring out what sort of position to take with that security (underpriced = buy, overpriced = sell or short). This method of security analysis is considered to be the opposite of technical analysis. Fundamental analysis is about using real data to evaluate a security's value. Although most

analysts use fundamental analysis to value stocks, this method of valuation can be used for just about any type of security.

The risk associated with fundamental analysis is that it is somewhat subjective. While a quantitative approach is possible, fundamental analysis usually entails a qualitative assessment of how market forces interact with one another in their impact on the investment in question. It is possible for those market forces to point in different directions, thus necessitating an interpretation of which forces will be dominant. This interpretation may be wrong, and could therefore lead to an unfavorable investment decision.

### **Investment Strategies when Managing Client Assets and/or Providing Investment Advice**

HMA utilizes several strategies when managing client accounts. Included are:

- **Aggressive Growth.** This method has market risk associated with volatile stock markets.
- **Growth:** This method has less equity volatility risk due to the integration of fixed income, but fixed income assets can fall in value.
- **Growth and Income:** This method has even further reduced equity risk due to the additional holdings in the fixed income category. Even so, this method is susceptible to equity market risk as well as fixed income interest rate and credit risk.
- **Balanced:** This method attempts to balance risk equally between both the equity and fixed income markets. Even so, there is some market, interest rate, and credit risk involved.
- **Moderate Conservative:** This method allocates a greater percentage toward fixed income investments which makes the portfolio more sensitive to interest rate and credit risk relative to equity market risk.
- **Conservative:** This method further tilts the allocation towards fixed income and has a significant minority of the account in equity risk holdings thus having increased sensitivity to interest rate and credit risks.
- **Income Only:** This method has nearly all fixed income risks with little to no equity allocations. Of all the methods listed, it has the most sensitivity to interest rate and credit risks.

The following are some general investment strategies we use when managing client accounts.

- Long term purchases. Investments held at least a year.
- Short term purchases. Investments sold within a year.
- Margin transactions. When an investor buys a stock on margin, the investor pays for part of the purchase and borrows the rest from a brokerage firm. For example, an investor may buy \$5,000 worth of stock in a margin account by paying for \$2,500 and borrowing \$2,500 from a brokerage firm. Clients cannot borrow stock for HMA.

### **Risk of Loss**

Clients must understand that past performance is not indicative of future results. Therefore, current and prospective clients (including you) should never assume that future performance of any specific investment or investment strategy will be profitable. Investing in securities (including stocks, mutual funds, and bonds) involves risk of loss. Further, depending on the different types of investments there

may be varying degrees of risk. Clients and prospective clients should be prepared to bear investment loss including loss of original principal.

Because of the inherent risk of loss associated with investing, HMA is unable to represent, guarantee, or even imply that our services and methods of analysis can or will predict future results, successfully identify market tops or bottoms, or insulate you from losses due to market corrections or declines. There are certain additional risks associated when investing in securities through this investment management program.

- Management Risk – Your investment with our firm varies with the success and failure of our investment strategies, research, analysis and determination of portfolio securities. If our investment strategies do not produce the expected returns, the value of the investment will decrease
- ETF and Mutual Fund Risk – HMA primarily recommends mutual funds and exchange traded funds. When HMA invests in an ETF or mutual fund for a client, the client will bear additional expenses based on its' pro rata share of the ETFs or mutual fund's operating expenses, including the potential duplication of management fees. The risk of owning an ETF or mutual fund generally reflects the risks of owning the underlying securities the ETF or mutual fund holds. Clients will also incur brokerage costs when purchasing ETFs.
- Market Risk – Markets as a whole go down resulting in a decrease in the value of client investments. This is also referred to as systemic risk.
- Equity (stock) market risk – Common stocks are susceptible to general stock market fluctuations and to volatile increases and decreases in value as market confidence in and perceptions of their issuers change. If you held common stock, or common stock equivalents, of any given issuer, you would generally be exposed to greater risk than if you held preferred stocks and debt obligations of the issuer.
- Company Risk. When investing in stock positions, there is always a certain level of company or industry specific risk that is inherent in each investment. This is also referred to as unsystematic risk and can be reduced through appropriate diversification. There is the risk that the company will perform poorly or have its value reduced based on factors specific to the company or its industry. For example, if a company's employees go on strike or the company receives unfavorable media attention for its actions, the value of the company may be reduced.
- Fixed Income Risk. When investing in bonds, there is the risk that issuer will default on the bond and be unable to make payments. Further, individuals who depend on set amounts of periodically paid income face the risk that inflation will erode their spending power. Fixed-income investors receive set, regular payments that face the same inflation risk.
- Credit Risk. Credit risk can be described as the risk of loss of principal or loss of a financial reward stemming from a borrower's failure to repay a loan or otherwise meet a contractual obligation. Credit risk arises whenever a borrower is expecting to use future cash flows to pay a current debt. Investors are compensated for assuming credit risk by way of interest payments from the borrower or issuer of a debt obligation. Credit risk is

closely tied to the potential return of an investment, the most notable being that the yields on bonds correlate strongly to their perceived credit risk.

- **Margin Risk** – To the extent that you authorize the use of margin, and margin accounts are managed by our Firm, the market value of your account and corresponding fee payable to HMA will be increased. As a result, in addition to understanding and assuming the additional principal risks associated with the use of margin (see below), clients authorizing margin are advised of the potential conflict of interest whereby the decision to use margin will correspondingly increase the management fee paid to HMA. Accordingly, the decision as to whether to open a margin account is left totally to the discretion of client.
  - A margin account will be carried by the broker/dealer of your account. The securities purchased in such an account are the broker/dealer's collateral for its loan to you.
  - If the securities in a margin account decline in value, the value of the collateral supporting this loan also declines, and, as a result, a brokerage firm is required to take action, such as issue a margin call and/or sell securities or other assets in your accounts, in order to maintain necessary level of equity in the account.
  - It is important that you fully understand the risks involved in trading securities on margin, which are applicable to any margin account that you may maintain, including any Margin Account that may be established as a part of our Investment Management Services and held by your broker/dealer. These risks include the following:
    - You can lose more funds than you deposit in your margin account.
    - The broker/dealer can force the sale of securities or other assets in your account.
    - The broker/dealer can sell your securities or other assets without contacting you.
    - You are not entitled to choose which securities or other assets in your margin account that may be liquidated or sold to meet a margin call.
    - The broker/dealer may move securities held in your cash account to your margin account and pledge the transferred securities.
    - The broker/dealer can increase its "house" maintenance margin requirements at any time and are not required to provide you advance written notice.
    - You are not entitled to an extension of time on a margin call.

#### **Item 9 – Disciplinary Information**

This item is not applicable to our brochure because there are no legal or disciplinary events listed at Item 9 of the Form ADV Part 2 instructions that are material to a client's or prospective client's evaluation of our business or integrity.

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

Hanson McClain Advisors is **not** and does **not** have a related company that is a (1) futures commission merchant, commodity pool operator, or commodity trading advisor, (2) banking or thrift institution, (3) accountant or accounting firm, (4) lawyer or law firm, (5) pension consultant, (6) real estate broker or dealer, or (7) sponsor or syndicator of limited partnerships.



**Hanson McClain Retirement Network, LLC doing business as Hanson McClain Securities**

Hanson McClain Advisors is under common ownership with a full-service, introducing broker/dealer, Hanson McClain Retirement Network, LLC, doing business as Hanson McClain Securities. Hanson McClain Securities is a member of FINRA and SIPC. Hanson McClain Securities is also an investment advisor registered with the SEC.

Hanson McClain Advisors and Hanson McClain Securities are owned by Hanson McClain Group, Inc. a holding company with majority ownership controlled equally between Scott Hanson and Pat McClain.

Advisor representatives of Hanson McClain Advisors may also be registered securities agents with Hanson McClain Securities and provide retail financial services directly to clients of Hanson McClain Securities. As explained in Item 4 of this Brochure, some employees of Hanson McClain Advisors wholesale and distribute the Pathway Advisors Mutual Funds (the "Funds"). In order to wholesale and help distribute the Funds, some Hanson McClain Advisors employees engaging in Fund distribution services are licensed as registered representatives of Hanson McClain.

In addition to providing retail brokerage services, Hanson McClain Securities provides marketing, consulting, and client acquisition services to other investment adviser firms, broker/dealers and their representatives through the Hanson McClain Retirement Network. It should be noted that some of the Solicitors referring clients to our Firm are partners in the Hanson McClain Retirement Network. Additional details regarding this arrangement are provided at Item 14 of this brochure.

Hanson McClain Securities' registration as an investment advisor is not materially significant to the HMA clients. Hanson McClain's advisory services are completely separate and unrelated to the advisory services provided by HMA. However, some HMA advisor representatives are dually licensed as advisory representatives with Hanson McClain.

Hanson McClain Securities is also a licensed insurance agency and the associated persons of Hanson McClain Securities and Hanson McClain Advisors may also be independently licensed to sell insurance products through various insurance companies. When acting in these capacities, commissions are paid to Hanson McClain Securities for selling these products.

It should be noted that Hanson McClain Advisors clients receiving services outlined within this brochure will **not** open brokerage accounts through Hanson McClain Securities and will **not** be insurance clients of Hanson McClain Securities. Thus, we avoid potential conflicts of interest other investment advisors (including our affiliate Hanson McClain Advisors) have when requiring or recommending the use of an affiliated broker/dealer and affiliated insurance company.

**Item 11 – Code of Ethics, Participation in Client Transactions and Personal Trading**

**Code of Ethics Summary**

According to the *Investment Advisers Act of 1940*, an investment adviser is considered a fiduciary. As a fiduciary, it is an investment adviser's responsibility to provide fair and full disclosure of all material facts. In addition, an investment adviser has a duty of utmost good faith to act solely in the best interest of each of its clients. Hanson McClain Advisors and its supervised persons have a fiduciary duty to all clients. Hanson McClain Advisors has established a Code of Ethics, which all supervised persons must read and then execute an acknowledgement agreeing that they understand and agree to comply with Hanson McClain Advisors' Code of Ethics. Hanson McClain Advisors and its supervised persons' fiduciary duty to clients is considered the core underlying principle for Hanson McClain Advisors' Code of Ethics and

represents the expected basis for all supervised persons' dealings with clients. Hanson McClain Advisors has the responsibility to make sure that the interests of clients are placed ahead of it or its associated persons' own investment interests. All supervised persons will conduct business in an honest, ethical and fair manner. All supervised persons will comply with all federal and state securities laws at all times. Full disclosure of all material facts and potential conflicts of interest will be provided to clients prior to services being conducted. All supervised persons have a responsibility to avoid circumstances that might negatively affect or appear to affect the supervised persons' duty of complete loyalty to their clients. This section is only intended to provide current clients and potential clients with a description of Hanson McClain Advisors' Code of Ethics. If current or prospective clients wish to review Hanson McClain Advisors' Code of Ethics in its entirety, a copy may be requested from any of Hanson McClain Advisors' supervised persons and a copy will be provided promptly.

#### **Affiliate and Employee Personal Securities Transactions Disclosure**

Hanson McClain Advisors' supervised persons may buy or sell securities or have an interest or position in a security for their personal account that they also recommend to clients. As these situations may represent a potential conflict of interest, it is a policy of Hanson McClain Advisors that no associated persons shall prefer his or her own interest to that of the advisory client. No person supervised by Hanson McClain Advisors may purchase or sell any security prior to a transaction or transactions being implemented for an advisory account. Supervised persons shall not buy or sell securities for their personal account(s) where their decision is derived, in whole or in part, by information obtained as a result of his/her employment unless the information is also available to the investing public upon reasonable inquiry. Hanson McClain Advisors maintains a list of all securities holdings for itself and all supervised persons, which is reviewed on a regular basis by a principal of the firm.

#### **Pathway Advisors Funds**

As described previously in this brochure (see Items 4, 5, and 10), Hanson McClain Advisors is the investment advisor to the Pathway Advisors Funds, each of which is a separate series of Financial Investors Trust, a registered investment company. Please refer to the prior sections for more details. Prior to investing in the Pathway Advisors Funds, HMA employees must contact the Compliance department for prior approval.

### **Item 12 – Brokerage Practices**

#### **Individually Managed Client Accounts**

Hanson McClain Advisors does not require or recommend the use of any particular broker/dealer to serve as qualified custodian. Clients may be required to use a particular broker/dealer, but the requirement to do so is determined by the Solicitor or Platform sponsor.

Because Hanson McClain Advisors does not recommend or select brokerage platforms, we may not be able to obtain the best prices and execution for the transaction. Clients may receive less favorable prices than would otherwise be the case if their Solicitor or Platform sponsor selected an alternative broker/dealer or custodian. Pricing for transactions, custodial services and other services provided by a broker/dealer will vary based on the broker/dealer utilized. Thus some clients hiring Hanson McClain Advisors' management services will pay more for such services than other clients.

Because we do not recommend or require the use of specific brokerage platforms, we do not receive client referrals for recommending particular brokerage platforms. Further, we do not have soft-dollar arrangements with broker/dealers. However, many of the platforms selected by Solicitors and Platform sponsors provide certain, standard benefits that are available without cost to all investment advisor firms

using the platform, including our firm. These benefits include, but are not necessarily limited to, the following products and services: receipt of duplicate client statements and confirmations; research related products and tools; access to a trading desk serving Hanson McClain Advisors accounts participants; 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; and access to mutual funds with no transaction. Some of the products and services made available by a broker/dealer through their program may benefit Hanson McClain Advisors or the Solicitor but may not benefit client accounts. These products or services may assist Hanson McClain Advisors or a Solicitor in managing and administering client accounts, including accounts not maintained at the broker/dealer providing the benefit.

### **Pathway Advisors Mutual Funds**

Hanson McClain Advisors places orders for the purchase and sale of portfolio securities, options and futures contracts and buys and sells such securities, options and futures for each Pathway Advisors Mutual Funds (collectively referred to as the "Fund") through a substantial number of brokers and dealers. In so doing, Hanson McClain Advisors uses its best efforts to obtain for the Fund the most favorable price and execution available, except to the extent it may be permitted to pay higher brokerage commissions as described below. In seeking the most favorable price and execution, Hanson McClain Advisors, having in mind the Fund's best interests, considers all factors it deems relevant, including, by way of illustration, price, the size of the transaction, the nature of the market for the security, the amount of the commission, the timing of the transaction taking into account market prices and trends, the reputation, experience and financial stability of the broker-dealer involved and the quality of service rendered by the broker-dealer in that or other transactions.

Hanson McClain Advisors places orders for the purchase and sale of portfolio investments for the Fund's accounts with brokers or dealers selected by it in its discretion. In effecting purchases and sales of portfolio securities for the accounts of the Fund, Hanson McClain Advisors will seek the best price and execution of the Fund's orders. In doing so, the Fund may pay higher commission rates than the lowest available when Hanson McClain Advisors believes it is reasonable to do so in light of the value of the brokerage and research services provided by the broker effecting the transaction, as discussed below. Although the Fund may use a broker-dealer that sells Fund shares to effect transactions for the Fund's portfolios, the Fund will not consider the sale of Fund shares as a factor when selecting broker-dealers to execute those transactions.

There is generally no stated commission in the case of fixed-income securities and other securities traded on a principal basis in the over-the-counter markets, but the price paid by the Fund usually includes an undisclosed dealer commission or markup. In underwritten offerings, the price paid by the Fund includes a disclosed, fixed commission or discount retained by the underwriter or dealer. Transactions on U.S. stock exchanges and other agency transactions involve the payment by the Fund of negotiated brokerage commissions. Such commissions vary among different brokers. Also, a particular broker may charge different commissions according to such factors as the difficulty and size of the transaction. Transactions in non-U.S. securities generally involve the payment of fixed brokerage commissions, which are generally higher than those in the United States. The purchase by the Fund of participations or assignments may be pursuant to privately negotiated transactions pursuant to which the Fund may be required to pay fees to the seller or forego a portion of payments in respect of the participation agreement.

Advisers or sub-advisers of investment companies and other institutional investors receive research and brokerage products and services (together, "services") from broker-dealers which execute portfolio

transactions for the clients of such advisers. Consistent with this practice, the Adviser receives brokerage and research products and services from many broker-dealers with which Hanson McClain Advisors places the Fund's portfolio transactions. These services, which in some cases may also be purchased for cash, may include, among other things, such items as general economic and security market reviews, industry and company reviews, evaluations of securities, recommendations as to the purchase and sale of securities, and services related to the execution of securities transactions. The advisory fees paid by the Fund are not reduced because the Adviser receives such services even though the receipt of such services relieves Hanson McClain Advisors from expenses it might otherwise bear. Research and brokerage services provided by broker-dealers chosen by Hanson McClain Advisors to place the Fund's portfolio transactions may be useful to Hanson McClain Advisors in providing services to Hanson McClain Advisors' other clients, although not all of these services may be necessarily useful and of value to Hanson McClain Advisors in managing the Fund. Conversely, brokerage and research products and services provided to Hanson McClain Advisors by broker-dealers in connection with trades executed on behalf of other clients of Hanson McClain Advisors may be useful to Hanson McClain Advisors in managing the Fund, although not all of these brokerage and research products and services may be necessarily useful and of value to Hanson McClain Advisors in managing such other clients. In reliance on the "safe harbor" provided by Section 28(e) of the Securities Exchange Act of 1934, as amended (the "1934 Act"), Hanson McClain Advisors may cause the Fund to pay a broker-dealer which provides "brokerage and research services" (as defined for purposes of Section 28(e)) to Hanson McClain Advisors an amount of commission for effecting a securities transaction for the Fund in excess of the commission which another broker-dealer would have charged for effecting that transaction if Hanson McClain Advisors determines in good faith that the commission is reasonable in relation to the value of the brokerage and research services provided by the broker-dealer viewed in terms of either a particular transaction or Hanson McClain Advisors' overall responsibilities to the advisory accounts for which it exercises investment discretion.

#### **Aggregation of Client Orders**

Transactions implemented by Hanson McClain Advisors for client accounts are effected independently, unless Hanson McClain Advisors decides to purchase or sell the same securities for several clients at approximately the same time. This process is referred to as aggregating orders, batch trading, or block trading and may be used by Hanson McClain Advisors. Even if more advantageous to clients, Hanson McClain Advisors does not typically aggregate orders. If Hanson McClain Advisors chooses to aggregate client orders, the allocation of securities among client accounts will be done on a fair and equitable basis. Typically, the process of aggregating client orders is done in order to achieve better execution, to negotiate more favorable commission rates or to allocate orders among clients on a more equitable basis in order to avoid differences in prices and transaction fees or other transaction costs that might be obtained when orders are placed independently. Under this procedure, transactions will be averaged as to price and will be allocated among Hanson McClain Advisors clients in proportion to the purchase and sale orders placed by an individual Hanson McClain Advisors investment advisor representative for each client account on any given day. When Hanson McClain Advisors determines to aggregate client orders for the purchase or sale of securities, including securities in which an associated person of Hanson McClain Advisors may invest, Hanson McClain Advisors will do so in accordance with the parameters set forth in the SEC No-Action Letter, *SMC Capital, Inc.* It should be noted, Hanson McClain Advisors does not receive any additional compensation or remuneration as a result of aggregation.

#### **Trading Error Policy**

Hanson McClain Advisors has implemented procedures designed to prevent trade errors; however, trade errors in client accounts cannot always be avoided. Consistent with its fiduciary duty, it is the policy of Hanson McClain Advisors to correct trade errors in a manner that is in the best interest of the client. In

cases where the client causes the trade error, the client will be responsible for any loss resulting from the correction. Depending on the specific circumstances of the trade error, the client may not be able to receive any gains generated as a result of the error correction. In all situations where the client does not cause the trade error, the client will be made whole and any loss resulting from the trade error will be absorbed by Hanson McClain Advisors if the error was caused by Hanson McClain Advisors. The remedy for an error caused by Hanson McClain Advisors may be in the form of a credit against future Hanson McClain Advisors investment management fees. If the error is caused by the broker-dealer, the broker-dealer will be responsible for covering all trade error costs. If an investment gain results from the correcting trade, the gain will remain in the client's account unless the same error involved other client account(s) that should also receive the gains and it is not permissible for all clients to retain the gain. Hanson McClain Advisors may also confer with clients to determine if the client should forego the gain (e.g., due to tax reasons).

Hanson McClain Advisors will never retain any portion of any gains made as a result of trade error corrections or profit in any way from trade errors.

If the gain does not remain in the account, the client's broker/dealer will maintain gains that may result from correcting a trade error and in some instances may use such gains to offset overall losses the broker/dealer incurs from trading errors.

### **Item 13 – Review of Accounts**

Investment Models held in accounts managed by Hanson McClain Advisors are reviewed at least quarterly by Hanson McClain Advisors. The client's Solicitor generally reviews Pathway Retirement Solutions Program accounts with the client on a mutually agreed upon schedule.

All clients are encouraged to discuss their investment objectives, needs and goals and to keep us informed of any changes regarding their situation. All clients are encouraged to review, at least annually, investment objectives and performance.

Clients will receive account statements and transaction confirmation notices at least quarterly from the qualified custodian at which their accounts are maintained. In addition, Hanson McClain Advisors provides quarterly performance reports for clients with Pathway Retirement Solutions Program accounts (where included as a platform feature) summarizing account performance.

It is important for clients to review all account statements received directly from the custodian. Further, clients are urged to compare position and performance reports provided by Hanson McClain Advisors against the account statements received directly from the custodian. If at any time a client does not receive the most recent account statement(s) or does not have access to account statements, the client should contact us immediately.

The underlying portfolios held in client accounts and recommended by Hanson McClain Advisors are reviewed on an on-going basis by the Firm's Chief Investment Officer and the Firm's Director of Research. Their primary responsibilities are:

- Develop Hanson McClain Advisors' investment philosophy
- Collaborate on the principles of portfolio design and investment management
- Identify the investment objectives Hanson McClain Advisors' investment portfolios will pursue
- Establish the risk/return profiles for Hanson McClain Advisors' investment portfolios
- Monitor the execution of Hanson McClain Advisors' portfolios for tracking of expected outcomes

- Collaborate to arrive at a consensus view on Hanson McClain Advisors' investment outlook and forecasts, and to identify promising opportunities
- Prioritize investment research, process development, and staff utilization initiatives
- Monitor and confirm the continuing alignment of the investment products and company activities with Hanson McClain Advisors' business objectives
- Address and resolve operational and administrative issues as needed

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

As a third-party investment advisor providing asset management services, Hanson McClain Advisors relies exclusively on client referrals from unaffiliated investment advisors and their representatives ("Solicitors"). Details of the compensation provided to investment advisors that refer clients to Hanson McClain Advisors are provided at Item 5 of this brochure. All of our referral arrangements are in compliance with federal or state regulations (as applicable). Solicitation/referral fees are paid pursuant to a written agreement retained by both the Firm and the Solicitor. Solicitors are required to provide clients with several documents, including a copy of this Form ADV Part 2 Disclosure Brochure and a Solicitor Disclosure Document prior to or at the time of entering into any investment advisory contract with Hanson McClain Advisors.

Clients that engage Hanson McClain Advisors' services will pay more or less to obtain Hanson McClain Advisors' investment management services than do other. Variations in the Solicitor's compensation may be due to the Solicitor's role as an unaffiliated investment adviser or investment adviser representative for the consulting and monitoring services the Solicitor may provide to the client on an ongoing basis relative to the client's engagement of Hanson McClain Advisors. Such arrangements, and their terms and conditions, are exclusively determined between the client and the Solicitor, and Hanson McClain Advisors is not a party to these arrangements.

Hanson McClain Advisors pays to some broker-dealers and investment advisor firms a fixed annual participant provider fee to be listed on the broker-dealer or investment advisor's platform of approved third party managers. The platform listing permits the broker-dealer or investment advisor's representatives to recommend Hanson McClain Advisors' investment management services to their clients. The fixed annual participant fee is payable regardless of the number, if any, of a broker-dealer or investment advisor's clients that engage Hanson McClain Advisors' services. Hanson McClain Advisors may enter into similar arrangements with additional broker-dealers or investment advisors, pursuant to which Hanson McClain Advisors will be added to the respective firm's third party manager platforms. Hanson McClain Advisors may also agree to serve as sub-advisor to an unaffiliated investment advisor.

#### **Hanson McClain Retirement Network**

In addition to the fee arrangements described above, some Solicitors have joined the Hanson McClain Retirement Network (referred to as the "Network") which is a client acquisition program for independent financial advisors designed and provided through our affiliate Hanson McClain Retirement Network, LLC doing business as Hanson McClain. The Network provides marketing support and training to members (referred to as "Partners"). Partners are not considered supervised persons or affiliates of Hanson McClain and must be licensed as securities agents with a registered broker/dealer, licensed as investment advisor representatives with an investment advisor firm or dually licensed as both a securities agent and investment advisor representative.

Hanson McClain trains Partners to help employees of companies such as those in the tele-communications and utility industries with retirement planning. Services provided by Hanson McClain do

not include investment advice directly to Partners or their clients. Hanson McClain does not meet with individual clients. Hanson McClain's marketing services focus on identification of key market areas and segments; marketing strategies to increase the Partner's client base; and developing and promoting workshops. Workshops suggested by Hanson McClain are general education in nature and focused on 401(k) and pension plans offered by the workshop attendees' company. Workshop materials provided by Hanson McClain to Partners do not include product sales or personalized investment advice. Partners specialize in both salaried and non-salaried employees' retirement programs.

For Partners that contract for enhanced Network services, Hanson McClain takes an active role in coordinating workshops for Partners. Under an enhanced arrangement, Hanson McClain will create and setup workshops as well as providing marketing materials for the workshop. In addition, Hanson McClain Relationship Manager(s) assigned to the Partner will solicit attendees to workshop(s). Relationship Managers are supervised persons of Hanson McClain and are licensed as investment advisor representatives.

As consideration for the services provided by Hanson McClain to its Partners, Partners must assign, as compensation, a percentage of all revenues earned from Partner's clients attained as a result of the marketing training and services provided by Hanson McClain. Revenue includes the Partner's receipt of commissions earned from brokerage services and/or advisory fees earned from advisory services. Hanson McClain may receive up to 30% of all revenue earned by the Partner. The compensation allocation continues throughout the term of the Joint Marketing Agreement, including renewal period(s), between Hanson McClain and the Partner. The exact arrangements, including term and compensation, are detailed in the Joint Marketing Agreement between Hanson McClain and the Partner.

Although Solicitors that are also Partners of the Network compensate Hanson McClain directly for Network services, there is a conflict of interest when Partners serve as Solicitors for Hanson McClain Advisors because Partners may be influenced to refer clients to Hanson McClain Advisors based on the services and support provided by Hanson McClain and not solely based on the performance history and investment services provided by Hanson McClain Advisors. If your Solicitor is also a Hanson McClain Partner, specific disclosure regarding the arrangement and conflict of interest will be provided to you in writing.

### **Client Referrals**

Hanson McClain Advisors associated persons may receive a bonus when attracting new clients that contract for Hanson McClain Advisors services. Such bonuses are not available to all supervised persons and will only be provided if the supervised person is licensed as a Hanson McClain Advisors advisor representative. When a bonus is paid, it will not result in higher advisory fees charged to the client. Bonuses generally do not exceed 1% of the total amount of the client's investable assets managed by Hanson McClain Advisors or transferred to Hanson McClain.

Hanson McClain Advisors may receive client referrals from TD Ameritrade through its participation in TD Ameritrade AdvisorDirect. In addition to meeting the minimum eligibility criteria for participation in AdvisorDirect, Hanson McClain Advisors 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 Hanson McClain Advisors 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 Hanson McClain

Advisors and has no responsibility for Hanson McClain Advisors' management of client portfolios or Hanson McClain Advisors' other advice or services. Hanson McClain Advisors 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 Hanson McClain Advisors ("Solicitation Fee"). Hanson McClain Advisors will also pay TD Ameritrade the Solicitation Fee on any advisory fees received by Hanson McClain Advisors 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 Hanson McClain Advisors on the recommendation of such referred client. Hanson McClain Advisors 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.

Hanson McClain Advisors' 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, Hanson McClain Advisors may have an incentive to recommend to clients that the assets under management by Hanson McClain Advisors be held in custody with TD Ameritrade and to place transactions for client accounts with TD Ameritrade. In addition, Hanson McClain Advisors has agreed not to solicit clients referred to it 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. Hanson McClain Advisors' participation in AdvisorDirect does not diminish its duty to seek best execution of trades for client accounts.

### **Other Compensation**

Please refer to Item 12 for a description of the economic benefits received from NFS.

Hanson McClain Advisors' advisor representatives sell securities products in their separate capacities as registered securities agents of Hanson McClain. Therefore, Hanson McClain and its securities agents may receive compensation in addition to financial planning fees and Program fees. Hanson McClain receives a percentage of the fee charged by National Financial Services for money market positions held in Program accounts. Further, some of the financial planning advice offered by Hanson McClain Advisors' advisor representatives involves investments in mutual fund products. Such products may be recommended in connection with financial planning advice or through Program. Load and no-load mutual funds may pay annual distribution charges sometimes referred to as 12b-1 fees. Hanson McClain and Hanson McClain Advisors advisor representatives may receive a portion of these 12b-1 fees from some investment companies in their separate capacities as registered securities agents. Clients should be aware that these 12b-1 fees come from fund assets, and thus, indirectly from client's assets. The receipt of these fees could represent an incentive for registered securities agents to recommend funds with 12b-1 fees or higher 12b-1 fees over funds with no fees or lower fees, therefore creating a potential conflict of interest. Hanson McClain Advisors' advisor representatives will only recommend mutual funds to clients if such mutual funds are suitable for such client and appropriate for the fulfillment of the client's objectives.

Certain product sponsors may provide Hanson McClain Advisors/Hanson McClain and their representatives with other economic benefits as a result of sales activities directed to the sponsors, including but not limited to, financial assistance or the sponsorship of conferences and educational sessions, marketing support, incentive awards, payment of travel expenses, tools to assist Hanson McClain Advisors/Hanson McClain in providing various services to clients such as reporting programs and



portfolio analysis and direction of brokerage transactions to Hanson McClain in its capacity as a broker-dealer.

Some of Hanson McClain Advisors' advisor representatives also sell insurance products in their separate capacities as independently licensed insurance agents. When doing so, they may offer variable annuity products to clients when deemed suitable. Complete information concerning variable annuity account charges and expenses will be disclosed in the variable annuity prospectus which will be provided to clients. Depending upon a client's specific situation, a variable annuity product may or may not include a surrender schedule. Any guarantees a specific variable annuity may offer are dependent on the claims-paying ability of the particular company that issued the policy. An investment in a variable annuity is subject to fluctuations in market value and possible loss of principal. All commissions received for insurance products are paid to Hanson McClain in its capacity as an insurance agency.

Hanson McClain Advisors' affiliate, Hanson McClain, has entered into an agreement with IntelliQuote Insurance Services to offer life insurance to clients of Hanson McClain and Hanson McClain Advisors. IntelliQuote Insurance Services specializes in offering life insurance solutions for clients and their families. Product availability and coverage may vary by state. To the extent a Hanson McClain Advisors client or prospective client purchases insurance products through IntelliQuote, Hanson McClain will receive a referral fee from IntelliQuote.

Hanson McClain, Hanson McClain Advisors and its' affiliates expressly disclaim any responsibility or liability for any damage, loss or injury arising out of: a client's access or inability to access the IntelliQuote website; a client's purchase or use of the products or services from IntelliQuote; the products or services or the content displayed on the IntelliQuote website; or the activities of any third party underwriter, manufacturer or distributor whose products or services are being advertised, offered or sold through IntelliQuote. Hanson McClain, Hanson McClain Advisors and its' affiliates do not guarantee any of the products or services advertised or offered for sale through IntelliQuote. Hanson McClain and Hanson McClain Advisors have not endorsed any particular products sold through IntelliQuote.

As previously disclosed in this document, Hanson McClain engages in and is compensated for providing consultation services to certain financial and retirement planners. These consultation services, provided through the Hanson McClain Retirement Network, consist of providing various marketing strategies to financial and retirement planners in order to increase the planners' customer base.

### **Item 15 – Custody**

Custody, as it applies to investment advisors, has been defined by regulators as having access or control over client funds and/or securities. In other words, custody is not limited to physically holding client funds and securities. If an investment advisor has the ability to access or control client funds or securities, the investment advisor is deemed to have custody and must ensure proper procedures are implemented. Hanson McClain Advisors is deemed to have custody of client funds and securities whenever Hanson McClain Advisors is given the authority to have fees deducted directly from client accounts. However, this is the only form of custody Hanson McClain Advisors Services will ever maintain. It should be noted that authorization to trade in client accounts is not deemed by regulators to be custody.

For accounts in which Hanson McClain Advisors is deemed to have custody, Hanson McClain Advisors has established procedures to ensure all client funds and securities are held at a qualified custodian (which is always selected by Solicitors) in a separate account for each client under that client's name. Clients or an independent representative of the client will direct, in writing, the establishment of all

accounts and therefore are aware of the qualified custodian's name, address and the manner in which the funds or securities are maintained. Finally, account statements are delivered directly from the qualified custodian to each client, or the client's independent representative, at least quarterly. Clients should carefully review those statements and are **urged** to compare the statements against reports received from Hanson McClain Advisors. When clients have questions about their account statements, they should contact Hanson McClain Advisors or the qualified custodian preparing the statement.

### **Item 16 – Investment Discretion**

Upon receiving written authorization from a client, Hanson McClain Advisors will maintain trading authorization over client accounts. Upon receiving written authorization from the client, Hanson McClain Advisors will implement trades on a **discretionary** basis (which shall be granted in the Investment Management Agreement). When discretionary authority is granted, Hanson McClain Advisors will have the authority to determine the type of securities and the amount of securities that can be bought or sold for the client's portfolio without obtaining the client's consent for each transaction.

All clients have the ability to place reasonable restrictions on the types of investments that may be purchased in an account. Clients may also place reasonable limitations on the discretionary power granted to our Firm so long as the limitations are specifically set forth or included as an attachment to the client agreement.

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

#### **Individually Managed Client Accounts**

Hanson McClain Advisors does not vote proxies on behalf of for individually managed client accounts. In certain cases, Hanson McClain Advisors will vote proxies for certain Pathway Accumulation Strategy accounts. While there are some investment advisors that will vote proxies and other corporate decisions on behalf of their clients, Hanson McClain Advisors has determined that taking on the responsibility for voting client securities results does not add enough value to the services provided to clients to justify the additional compliance and regulatory costs associated with voting client securities. Therefore, it is the responsibility of Hanson McClain Advisors clients to vote all proxies for securities held in accounts managed by Hanson McClain Advisors.

You will receive proxies directly from your custodian or transfer agent and such documents will not be delivered by or from Hanson McClain Advisors. While Hanson McClain Advisors does not vote client proxies, if you ever have a question about a particular proxy you can contact your Solicitor.

For HMA's Pathway Accumulation Strategy accounts, clients may elect HMA to vote proxies on their behalf. It should be noted that the Pathway Accumulation Strategy accounts are solely populated with HMA's proprietary registered funds and we do not expect the need to execute a proxy vote for the funds. Given the potential conflict, should the HMA proprietary funds ever require a proxy vote, a third party service will be contracted to vote on behalf of those who have elected HMA to vote their proxies. The third party service will generally vote for routine matters proposed by issuer management, such as setting a time or place for an annual meeting, changing the name or fiscal year of the company, or voting for directors in favor of the management proposed slate. Other routine matters which will generally be voted along with company management include: appointment of auditors, fees paid to board members, and change in the board structure. As long as the proposal does not: i) measurably change the structure, management, control or operations of the company; ii) measurably change the terms of, or fees or expenses associated with, an investment in the company; and the proposal is consistent with customary

industry standards and practices, as well as the laws of the state of incorporation applicable to the company, HMA's third party service will generally vote along with management. Clients may obtain information from HMA about how their securities are voted and may obtain a copy of HMA's proxy voting policies are voted by contacting the HMA Compliance Department.

### **Pathway Advisors Mutual Funds**

Hanson McClain Advisors is responsible for voting proxies and securities on behalf of the Pathway Advisors Funds. Subsequently, Hanson McClain Advisors has adopted policies and procedures which provide that proxies on securities will be voted for the exclusive benefit and in the best economic interest of the Fund, as determined by Hanson McClain Advisors in good faith. Such voting responsibilities will be exercised in a manner that is consistent with the general anti-fraud provisions of the Investment Advisers Act of 1940, as amended, as well as Hanson McClain Advisors' fiduciary duties under federal and state law to act in the best interest of the Fund.

On certain routine proposals (for example, those which do not change the structures, bylaws or operations of a company), Hanson McClain Advisors will generally vote in the manner recommended by management. Non-routine proposals, (such as those affecting corporate governance, compensation and other corporate events) and shareholder proposals, will generally be reviewed on a case-by-case basis. Hanson McClain Advisors determines that voting a particular proxy would create a material conflict of interest between its interests or the interests of any of its affiliated parties, Hanson McClain Advisors will full disclose the conflict of interest the Fund's Board.

The Fund's Board may obtain a copy of Hanson McClain Advisors' complete proxy voting policies and procedures upon request. The Fund's Board may also obtain information from Hanson McClain Advisors about how Hanson McClain Advisors voted any proxies on its behalf.

### **Legal Actions**

Clients retain the right under the applicable securities laws to initiate individually a lawsuit or join a class-action lawsuit against the issuer of a security that was held, purchased or sold by or for a client. Hanson McClain Advisors will not initiate such a legal proceeding on behalf of any of its client and does not provide legal advice to clients regarding potential causes of action against such a security issuer and whether its clients should join a class-action lawsuit. Hanson McClain Advisors recommends clients seek legal counsel prior to making a decision regarding whether to participate in such a class-action lawsuit. Hanson McClain Advisors' services do not include monitoring or informing its clients of any potential or actual class-action lawsuits against the issuers of the securities that were held, purchased or sold by or for any of its clients. However, upon a client's specific instruction, Hanson McClain Advisors may provide factual information related to the individual client's investment history in the security underlying the individual or class-action lawsuit and provide assistance with the completion of a portion of certain class-action paperwork. At no time should such assistance by Hanson McClain Advisors be deemed as a substitute for consulting with legal counsel.

## **Item 18 – Financial Information**

This item is not applicable to this brochure. Hanson McClain Advisors does not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance. Therefore, Hanson McClain Advisors is not required to include a balance sheet for its most recent fiscal year. Hanson McClain Advisors is not subject to a financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients. Finally, Hanson McClain Advisors has not been the subject of a bankruptcy petition at any time.