



## **Brochure - Part 2A of Form ADV**

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**This brochure provides information about the qualifications and business practices of Horizon Investments, LLC (“Horizon”). If you have any questions about the contents of this brochure, please contact us at 704-544-2399. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.**

**Additional information about Horizon is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)**

August 12, 2015

## **Item 2. Material Changes**

This updated version of Form ADV Part 2A (the “Brochure”) is dated August 12, 2015. The last annual update to Form ADV Part 2 was dated March 26, 2015 (the “Annual Update”). If you would like another copy of this brochure, please download it from the SEC website as indicated on the cover page, or you can contact Horizon at 704-544-2399. You can also get it from our website: [www.horizoninvestments.com](http://www.horizoninvestments.com).

Since the Annual Update, we have updated the following sections of the Brochure:

- Item 5, which we have expanded to describe how Horizon is compensated for managing certain Third Party Advisor accounts through the management fee received from Horizon’s Mutual Funds
- Item 8, where we have expanded our disclosure regarding our investment strategies to describe how Horizon’s Mutual Funds are utilized as components of certain Horizon strategies
- Item 10, where we have updated our disclosure regarding financial industry activities and affiliations with respect to Horizon’s Mutual Funds

Horizon encourages each client and prospective client to read this Brochure in its entirety.

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#### **Item 4. Advisory Business**

Horizon Investments, LLC has been in business since 1995. Its principal owner, who has been affiliated with Horizon since 1999, is Robert J. Cannon, President and CEO. Horizon is an investment adviser registered with the SEC under the Investment Advisers Act of 1940 (the “Advisers Act”).

Depending on the needs of clients, Horizon may serve as a primary investment adviser (*e.g.*, to separate accounts, mutual funds or other pooled investment vehicles) or as a subadviser to investment advisers and other financial institutions offering multiple investment advisory opportunities to clients. Horizon also provides services for retirement plans and plan participants. Horizon’s advisory services are more fully explained below.

As of December 31, 2014, Horizon’s discretionary assets under management were \$1,742,006,740 and non-discretionary assets under management were \$433,259,295. Total assets under management were \$2,175,266,035.

##### Horizon as Investment Adviser to Separate Accounts

Horizon provides investment recommendations and advisory and sub-advisory services to individuals and institutional accounts.

Separate account clients who engage Horizon directly for investment advisory services are referred to herein as “Direct Clients”. Horizon also provides sub-advisory services through a number of third party investment advisers, broker-dealers or other institutions (each, a “Third Party Advisor”). Separate account services are typically provided through Model Portfolios. For Third Party Advisors, Horizon may provide either Horizon-branded or private labeled investment portfolios. Horizon also provides Third Party Advisors with consulting and product development services.

Horizon client accounts are generally managed utilizing Horizon’s active asset allocation strategies. See “Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss” for a description of strategies offered by Horizon.

For Direct Clients, Horizon determines the appropriate portfolio investment style (*e.g.*, growth or conservative) based on pertinent and available information such as: age, financial circumstances, investment objectives and risk tolerance. Horizon’s clients generally do not have the ability to impose restrictions on Horizon’s management. When a client is introduced through a Third Party Advisor relationship, the client’s representative at the Third Party Advisor is responsible for tailoring the client’s needs with Horizon’s services, and restrictions generally are not imposed on services for such clients.

Horizon also provides account management services for some Direct Clients invested in variable annuities (each, a “Variable Annuity Client”). These clients directly engage Horizon to allocate their investment portfolios among a selection of variable annuity funds made available through insurance companies.

##### Horizon as Investment Adviser to Mutual Funds and Collective Funds

Horizon acts as the investment adviser of three registered investment companies (*i.e.*, mutual funds): the Horizon Active Asset Allocation Fund, Horizon Active Income Fund and the Horizon Active Risk Assist Fund (collectively, the “Mutual Funds”). Horizon is also the investment adviser for five collective investment funds (the “Collective Funds”). Horizon has discretion to direct investments, select brokers and place transaction orders for the Mutual Funds and Collective Funds.

##### Horizon Services for Retirement Plans

For retirement plans, Horizon provides investment advisory services on either a “non-discretionary” basis (serving as a “fiduciary” as defined by §3(21)(A)(ii) of the Employee Retirement Income Security Act of

1974 (“ERISA”)) or on a “discretionary” basis and thus will serve as an “investment manager” as defined by §3(38) of ERISA. In either case, Horizon provides specific investment advice to retirement plan clients with regard to the selection of investment manager(s) and/or investment vehicles available to the plan within the platform provided by the plan’s administrator.

#### Other Services

Horizon also provides non-discretionary investment recommendations, research or trading signals to accounts managed by other registered investment advisers.

### **Item 5. Fees and Compensation**

The specific manner in which fees are charged by Horizon is established in a client’s written investment advisory agreement. Generally, fees are charged quarterly in arrears, but Horizon has some arrangements where fees are billed in advance and where fees are billed on a monthly basis. Typically, fees are charged as a percentage of assets under management and are calculated at the close of each calendar quarter or month (as applicable), but there may be instances where Horizon enters into flat-fee arrangements with certain clients on a case-by-case basis.

Typically, a client authorizes fees to be paid to Horizon to be deducted from the client’s account by the custodian. The client is responsible for reviewing fee deductions shown on account statements and informing Horizon of any suspected errors. Advisory fees for accounts opened on a day other than the first day of the calendar quarter (or month) period or closed on a day other than the last business day of the calendar quarter (or month) will be prorated based on the number of days remaining in the period. Upon termination of any account, any prepaid, unearned fees will be refunded, and any earned, unpaid fees will be due and payable.

Although detailed information about the general fee schedules for Horizon’s investment advisory services are set forth below, fees are negotiable and can vary from client to client. Fees for Direct Clients are exclusive of brokerage commissions, transaction fees and other related costs and expenses incurred by the client. See “Item 12 – Brokerage Practices”. Clients who receive Horizon’s services through Third Party Advisors should contact the Third Party Advisor to determine the costs and expenses they will incur. All client accounts are subject to charges imposed by custodians, brokers, third party investments and other third parties such as fees charged by managers, custodial fees, odd-lot differentials, and other fees and taxes on brokerage accounts and securities transactions, as applicable. Mutual funds and exchange traded funds also charge internal management fees, which are disclosed in each such fund’s prospectus. Such charges, fees and commissions are exclusive of and in addition to Horizon’s fee, and Horizon does not receive any portion of these fees charged by third parties.

#### Fees for Direct Clients

Horizon performs individual account management services for a percentage of assets under management. The minimum account size is \$25,000 for Model Portfolios, and \$50,000 for accounts with Risk Assist®, Principal Protection or Real Spend®, although Horizon reserves the right in its sole discretion to accept accounts of a smaller size. The fees for services provided to Direct Clients are negotiable, but the general range of advisory fees is as follows:

- 1.00% - 2.00% annualized fee for Model Portfolios
- 1.00% - 2.00% annualized fee for Model Portfolios with Risk Assist®
- 1.00% - 2.00% annualized fee for Model Portfolios with Principal Protection
- 1.00% - 2.00% annualized fee for Real Spend®

Advisory fees are billed in arrears, and, depending on the custodian, are billed on a monthly or quarterly basis, based on the account value (including money market and other cash equivalent assets) at the end of the prior calendar period. Clients who establish an investment advisory account after the beginning of a calendar period will pay a prorated advisory fee. Horizon will provide clients and the custodian with a fee statement, if requested.

#### Fees for Third Party Advisor Clients

For Third Party Advisor clients, Horizon's maximum fees are 0.50% per quarter (2.00% per year). In addition, for certain strategies that utilize Horizon's Mutual Funds as an underlying portfolio component, Third Party Advisor clients are not charged directly by Horizon, but rather compensate Horizon through management fees received from those Mutual Fund investments. Third Party Advisor clients and potential clients can contact their applicable Third Party Advisor to determine the specific Horizon services and programs offered (*e.g.*, which Model Portfolios or Overlays are available) and related management fees or sub-advisory fees, as well as information on billing arrangements, brokerage arrangements, account minimums and custodial fees. Call us at the number on the front of this Brochure if you need contact information for your respective Third Party Advisor.

#### Fees for Variable Annuity Clients

Depending on the terms of the investment advisory agreement between Horizon and the Variable Annuity Client, accounts managed by Horizon utilizing variable annuity products are charged an annualized investment advisory fee between 1.50% and 2.00%, which is billed to the Variable Annuity Client's insurance company, quarterly and in arrears.

#### Fee Information for Collective Funds

The trustee of the Collective Funds pays Horizon for its investment advisory services on a monthly basis in arrears (calculated based upon the closing prices on the last business day of the month). Fees set forth below do not include the administrative fees, underlying ETF fees and other fees associated with the Collective Funds.

<u>Collective Fund Name</u>	<u>Investment Advisory Fee</u>
Horizon Focused with Risk Assist	0.60%
Horizon Growth with Risk Assist	0.60%
Horizon Moderate with Risk Assist	0.60%
Horizon Conservative with Risk Assist	0.60%
Horizon Conservation Plus with Risk Assist	0.60%

#### Fees Related to Retirement Plans and Plan Assets

##### *Retirement Plan Fiduciary Services*

For retirement plan clients for which Horizon serves as the ERISA §3(38) "investment manager" (*i.e.*, where Horizon has the authority to select, monitor, remove and replace the investment options offered under the plan), Horizon charges an annualized advisory fee of up to 0.10%. However, this fee will be waived to the extent assets of these retirement plans are invested in Horizon's Model Portfolios or Collective Funds.

Horizon can also serve as a fiduciary to retirement plans as described in §3(21) of ERISA (*i.e.*, where

Horizon provides suggestions to the plan sponsor, who is free to accept or reject those recommendations and who must then execute the investment decisions for the plan). Fees for such services will be negotiated.

#### *Retirement Plan Asset Management*

Horizon offers certain of its Model Portfolios to retirement plan clients. The fees for these services are negotiable, but the general range of advisory fees for these services is as follows:

- 0.50% - 0.60% annualized fee for Model Portfolios
- 0.60% - 0.70% annualized fee for Model Portfolios with Risk Assist®

These fees do not include custodial fees or fees of the underlying ETFs. Depending on the plan's billing structure, advisory fees are billed in arrears, and can be billed monthly, quarterly or twice per quarter.

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

Horizon does not charge advisory fees on a share of the capital appreciation of the funds or securities in a client account (so-called performance-based fees). Therefore, Horizon does not engage in side-by-side management of clients with performance-based fees.

#### **Item 7 – Types of Clients**

We provide our services to a number of types of clients, including registered investment companies (mutual funds); collective funds; third party investment advisers; individuals (including high net worth individuals); trusts, estates and charitable organizations; corporations or other business entities; not for profit entities; institutions; and pension and profit sharing plans.

For Direct Clients, the minimum account size is \$25,000 for Model Portfolios, and \$50,000 for accounts with Risk Assist®, Principal Protection or Real Spend®, although Horizon reserves the right in its sole discretion to accept accounts of a smaller size. Information about investment minimums for other clients and potential clients is available through the Third Party Advisors offering Horizon's services. Minimum account size for each Mutual Fund is disclosed in its prospectus.

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

Horizon provides asset management services on an ongoing basis based on the individual needs of the client. Horizon offers clients flexibility among payment structures, custodians and management styles. Generally, Horizon actively monitors assets of client accounts and makes changes deemed appropriate in light of the circumstances in the market, based upon the expertise of Horizon. Investing in securities involves risk of loss that clients should be prepared to bear. Accounts managed by Horizon may lose money.

Horizon's investment strategies focus on investments in exchange-traded funds (ETFs). Depending on the investment strategy selected by the client, these strategies can invest directly in ETFs or in Horizon's Mutual Funds, the underlying investments of which are primarily ETFs. Furthermore, depending on the investment strategy selected by the client, accounts can also consist of a combination of any of the following: ETFs, individual stocks, preferred stock, bonds, US treasuries, options, mutual funds (including Horizon's Mutual Funds), closed end funds and cash or cash equivalents, or other securities. For Variable Annuity Clients, investment decisions are made from among variable annuity options offered by the respective insurance company.

## Analysis and Investment Strategies

### Investment Philosophy and Process

Horizon believes in active management. Our investment philosophy centers on the idea that dynamic markets require flexible solutions. As markets change and opportunities are created, strategies built on experience and discipline can help investors gain, protect and spend wealth. In order to make relevant, timely shifts within an unpredictable market, we have built our investment process around multi-disciplined research. As a result, our research includes Economic, Quantitative, and Fundamental (EQF) disciplines to create solutions for investors, advisors and institutions.

Horizon's Active Asset Allocation investment process seeks to add incremental return and reduce risk through active investment decisions. The process combines the expertise of Horizon's EQF resources in order to identify and capture market opportunities. Investment ideas are internally generated through innovative research by Economic, Fundamental and Quantitative resources. Economic research provides a top-down, macro view of the markets, focusing primarily on Global Risk, Credit and Liquidity. Quantitative research is devoted to developing innovative models and currently utilizes a collection of quantitative models in an effort to eliminate the bias of any single-quant model. Fundamental research focuses on traditional securities analysis of companies, industries and sectors. The EQF process allows our allocations to be timely, as we seek return, manage risk and understand the underlying drivers of each holding in client portfolios.

### Portfolio Strategies

Horizon manages the portfolio strategies described below. Several of these strategies incorporate Horizon's portfolio overlay strategies, which are described further below. The primary strategies described below (Focused, Growth, Moderate, Conservative and Conservation Plus) are presented in order of potential risk and return (*e.g.*, an account managed with the Focused strategy, which seeks capital appreciation, is more likely than an account managed with the Conservation Plus strategy, which seeks capital preservation, to experience principal loss and volatility).

*Focused:* The Focused Portfolio seeks capital appreciation. As such, this Portfolio is primarily focused on a longer term goal for growth in capital, though it may become more defensive when warranted by market conditions.

*Focused with Principal Protection:* The Focused with Principal Protection Portfolio seeks capital appreciation while attempting to protect principal. As such, this Portfolio is primarily focused on a longer term goal for growth in capital, though it may become more defensive when warranted by market conditions.

*Focused with Risk Assist®:* The Focused with Risk Assist Portfolio seeks capital appreciation while attempting to limit downside risk through an active risk control strategy. As such, this Portfolio is primarily focused on a longer term goal for growth in capital, though it may become more defensive when warranted by market conditions.

*Growth:* The Growth Portfolio seeks capital appreciation. While this Portfolio is focused on a longer term goal for growth in capital, there is also a portion of the Portfolio that is defensively positioned (*e.g.*, by holding cash or investing income-producing securities).

*Growth with Principal Protection:* The Growth with Principal Protection Portfolio seeks capital appreciation, while attempting to protect principal. As such, while this Portfolio is primarily focused on a longer term goal for growth in capital, there is also a portion of the Portfolio that is defensively positioned (*e.g.*, by holding cash or investing income-producing securities).



*Growth with Risk Assist®*: The Growth with Risk Assist Portfolio seeks capital appreciation, while attempting to limit downside through an active risk control strategy. As such, while this Portfolio is primarily focused on a longer term goal for growth in capital, there is also portion of the Portfolio that is defensively positioned (e.g., by holding cash or investing income-producing securities).

*Moderate*: The Moderate Portfolio seeks both current income and capital appreciation. As such, this Portfolio strikes a balance between a moderate need for income, and a longer term need for capital appreciation.

*Moderate with Principal Protection*: The Moderate with Principal Protection Portfolio seeks both current income and capital appreciation while attempting to protect principal. As such, this Portfolio strikes a balance between a moderate need for income, and a longer term need for capital appreciation.

*Moderate with Risk Assist®*: The Moderate with Risk Assist Portfolio seeks both current income and capital appreciation while attempting to limit downside through an active risk control strategy. As such, this Portfolio strikes a balance between a moderate need for income, and a longer term need for capital appreciation.

*Conservative*: The Conservative Portfolio seeks current income and, to a lesser extent, capital appreciation. As such, it is a defensive portfolio. While not likely to generate the returns of a growth oriented portfolio, it should be slightly less volatile over time.

*Conservative with Risk Assist®*: The Conservative with Risk Assist Portfolio seeks current income and, to a lesser extent, capital appreciation while attempting to limit downside through an active risk control strategy. As such, it is a defensive portfolio. While not likely to generate the returns of a growth oriented portfolio, it should be slightly less volatile over time.

*Conservation Plus*: The Conservation Plus Portfolio primarily seeks capital preservation and some current income. As such, the Conservation Plus and the Conservation Plus with Risk Assist (see below) are the most defensive of the Portfolios.

*Conservation Plus with Risk Assist®*: The Conservation Plus with Risk Assist Portfolio primarily seeks capital preservation and some current income while attempting to limit downside through an active risk control strategy. As such, the Conservation Plus (see above) and the Conservation Plus with Risk Assist are the most defensive of the Portfolios.

The above-described Portfolio Strategies are used in the Model Portfolios and the Collective Funds; the availability of these strategies to a particular investor depends on the custodian or Third Party Advisor used by such person.

Strategy and risk information for each Mutual Fund is available in its prospectus.

#### Horizon Overlay Strategies

Horizon manages portfolio overlay strategies that are available through certain Model Portfolios for Direct Clients and separately through some Third Party Advisors. An overlay strategy is an add-on to the underlying investment strategy the investor selects for the portfolio. Generally, the overlay strategy analyzes the portfolio holdings in a representative account, and utilizes quantitative analysis to reallocate a portion of the portfolio to a fixed-income basket in an attempt to protect the principal during periods of severe market declines. The overlay protection is utilized only when Horizon believes it is warranted.

Horizon's two overlay strategies are Principal Protection and Risk Assist®.

*Principal Protection* is a principal protection investment strategy, not a guarantee. Its goal is to provide an investor a minimum of 100% of the initial investment (minus any fees and withdrawals) at the end of a seven year investment horizon. It is an investment strategy overlay that is intended to serve as a hedge against potential losses in a client's account. There is no guarantee that this goal will be achieved.

*Risk Assist®* is an investment strategy overlay designed to help manage investment risk. It utilizes an algorithm that signals transitions from account investments made pursuant to the account's primary strategy to a portfolio of U.S. Treasury-related securities. The goal of Risk Assist is to mitigate declines (peak-to-trough) in the value of an account over a period of time. There is no guarantee that this goal will be achieved.

#### *Real Spend® Retirement Income Strategy*

Horizon offers its Real Spend® retirement income strategy to Direct Clients and through certain Third Party Advisors. The Real Spend® strategy seeks to help retirees by investing principal so as to establish constant, inflation-adjusted withdrawals of cash during retirement. The strategy sets aside a portion of the amount invested for current spending and invests the remaining capital to fund future spending, with the option of adjusting yearly spending to overcome inflation. Real Spend® was created to address risks common to those seeking retirement income, including inflation risk, market risk and longevity risk. Real Spend® is not an insurance product and is not guaranteed. Clients may lose money.

#### *Additional Information*

Horizon manages several other strategies, using the investment philosophy and methodology described above, for Third Party Advisors and their clients. Clients of Third Party Advisors should contact their account representatives to find out more information about the availability of these strategies.

Horizon manages client accounts on multiple asset management or custodial platforms. Certain of these platforms are limited with respect to investment options (e.g., 403(b) plans have a discrete number of investment options that are selected by plan fiduciaries), and in instances where Horizon manages model portfolios comprised of those limited investment options, the performance of such portfolios may be different than where Horizon has broad discretion to select from a larger selection of investment options. Similarly, certain platforms have operational restrictions (e.g., restrictions on trading frequency) that may lead to different portfolio performance than for a portfolio on a platform where there are no such restrictions. Clients or potential clients can contact us at the number above to determine the scope of any such limitations that may affect the management of a particular account.

#### *Risk of Loss*

Securities markets fluctuate substantially over time. All investments in securities include a risk of loss of money invested (principal) and any unrealized profits (i.e., profits in the account that have not been liquidated, sometimes called "paper profits"). Horizon cannot guarantee any level of performance or that clients will not experience a loss of account assets.

Horizon does not represent, warrant or imply that the services or methods of analysis used by Horizon can or will predict future results, successfully identify market tops or bottoms, or insulate clients from losses due to major market corrections or crashes. No guarantees can be offered that clients' goals or objectives will be achieved. Further, no promises or assumptions can be made that the advisory services offered by Horizon will provide a better return than other investment strategies.

Varied fluctuations in the price of investments are a normal characteristic of securities markets due to a variety of influences. Managed account programs should be considered a long-term investment and thus long-term performance and performance consistency are the major goals.

Generally, Horizon's strategies will be subject to the following risks:

*Market Risk:* Market risk is the risk that the value of securities in a portfolio may decline due to daily fluctuations in the securities markets that are generally beyond Horizon's control. In a declining stock market, stock prices for all companies may decline, regardless of their long-term prospects.

*Equity Securities Risk:* The value of equity securities may decline due to general market conditions which are not specifically related to a particular company and are generally beyond Horizon's control, including fluctuations in interest rates, economic conditions, corporate earnings, adverse investor sentiment and general equity market conditions. In a declining stock market, stock prices for all companies (including those in a Horizon portfolio) may decline, regardless of their long-term prospects.

*Management Style Risk:* A portfolio's performance is based on the performance of the securities in which it invests. The ability of the portfolio to meet its objective is directly related to the ability of Horizon's allocation model to accurately measure market risk and appropriately react to current and developing market trends. There is no guarantee that Horizon's judgments about the attractiveness, value and potential appreciation of particular investments in which the portfolio invests will be correct or produce the desired results. If Horizon fails to accurately evaluate market risk or assess market conditions, the portfolio's value may be adversely affected.

*Risks Related to Portfolio Turnover:* Horizon may sell portfolio securities without regard to the length of time they have been held and, as a result of its trading strategies, some of Horizon's portfolios will likely have higher portfolio turnover than other funds. Since portfolio turnover may involve paying brokerage commissions and other transaction costs, higher turnover generally results in additional portfolio expenses. High rates of portfolio turnover could lower performance of Horizon's portfolios due to these increased costs and may also result in the realization of short-term capital gains. High rates of portfolio turnover in a given year in non-qualified accounts would likely result in short-term capital gains that are taxed at ordinary income tax rates.

*Risks Related to ETF NAV and Market Price:* The market value of an ETF's shares may differ from its net asset value ("NAV"). This difference in price may be due to the fact that the supply and demand in the market for ETF shares at any point in time is not always identical to the supply and demand in the market for the underlying basket of securities. Accordingly, there may be times when an ETF trades at a premium (creating the risk that a portfolio pays more than NAV for an ETF when making a purchase) or discount (creating the risks that the portfolio's value is reduced for undervalued ETFs it holds and that the portfolio receives less than NAV when selling an ETF).

*Fixed Income Risk:* Horizon may purchase fixed income investments of any maturity and credit quality. There are risks associated with fixed income investments, which include interest rate risk, maturity risk and credit risk. These risks could negatively affect the value of fixed income investments in Horizon's portfolios.

*Foreign Securities Risk:* Investing in securities issued by companies whose principal business activities are outside the United States may involve significant risks not present in domestic investments. For example, there is generally less publicly available information about foreign companies, particularly those not subject to the disclosure and reporting requirements of U.S.

securities laws. Foreign issuers are generally not bound by uniform accounting, auditing, and financial reporting requirements and standards of practice comparable to those applicable to domestic issuers. Investments in foreign securities also involve the risk of possible adverse changes in investment or exchange control regulations or currency exchange rates, expropriation or confiscatory taxation, limitation on the removal of cash or other assets, political or financial instability, or diplomatic and other developments that could affect such investments. ADRs and ETFs investing in foreign securities are subject to risks similar to those associated with direct investments in foreign securities.

*Currency Risk:* Investments in foreign markets involve currency risk, which is the risk that the values of assets denominated in foreign currencies will decrease due to adverse changes in the value of the U.S. dollar relative to the value of foreign currencies.

*Sector Risk:* Sector risk is the possibility that securities within the same group of industries will decline in price due to sector-specific market or economic developments. If a portfolio invests more heavily in a particular sector, the value of its shares may be sensitive to factors and economic risks that specifically affect that sector. As a result, a portfolio's share price may fluctuate more widely than the value of shares of a mutual fund that invests in a broader range of industries. Additionally, some sectors could be subject to greater government regulation than other sectors, which may impact the share price of companies in these sectors. The sectors in which any portfolio may invest in more heavily will vary.

#### **Item 9. Disciplinary Information**

Horizon is obligated to disclose any disciplinary event that would be material to clients, or potential clients, when evaluating Horizon to initiate or continue a relationship with us. We do not have any legal or other disciplinary items to report.

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

Horizon has several affiliations material to its advisory business. A description of each is provided below.

##### *Registered Personnel*

Certain of Horizon's personnel may be registered from time to time as registered representatives of the principal underwriter for the Mutual Funds (the "Distributor") to facilitate certain marketing activities on behalf of Horizon and the Mutual Funds. Any activities performed by such persons requiring such registration is supervised by the Distributor. Horizon does not direct any of its brokerage to, or execute any trades through, such persons.

##### *Mutual Funds*

Horizon is the investment adviser of the Mutual Funds. Each Mutual Fund is a series of AdvisorOne Funds, a trust governed by a Board of Trustees. All of the Trustees are independent of Horizon.

##### *Collective Funds*

Horizon is the sub-adviser to the Collective Funds, created and administered by Hand Benefits & Trust Company as trustee. Horizon is not affiliated with Hand Benefits & Trust Company.

##### *Related Entities*

Breen Financial Corp. ("Breen") provides financial consulting services and is a wholly-owned subsidiary of Horizon.

Presidium Retirement Advisers, Inc., an SEC-registered investment adviser, provides consulting and investment advisory services to pension and retirement plans, and is a wholly owned subsidiary of Breen.

Certain principals of Horizon are also principals of Horizon Administration and Management, LLC, which provides governance and consulting services to Horizon.

#### *Conflicts of Interests Related to Mutual Funds*

Conflicts of interests arise where Horizon recommends that clients invest in Horizon's Mutual Funds. Horizon receives management fee compensation from the Mutual Funds, and therefore, for the strategies in which investments in Mutual Funds are applicable, Horizon has a conflict of interest in utilizing the Mutual Funds. However, while in some cases a Mutual Fund may have management fees or expenses that are higher than, or performance that differs from, other mutual fund or ETF alternatives, in each case where a Horizon Mutual Fund is selected for an account, Horizon has determined that the Mutual Fund to be used, and the proportion of the account that is comprised of one or more Mutual Funds, is appropriate to implement Horizon's asset allocation strategy.

Direct Client accounts are invested in the Mutual Funds pursuant to authority to do the same granted in the investment advisory agreement with such client. For Third Party Advisor accounts, recommendations to invest in the Mutual Funds are typically made because the Third Party Advisor has determined that the Mutual Fund is the most efficient way to manage the account (*e.g.*, due to the size of the account, or to minimize brokerage or custodial platform charges) and has therefore chosen a strategy that uses the Mutual Funds.

Clients should note that the management fees and expenses of investments in the Mutual Funds are in some cases higher than Horizon's separately managed account fees for similar strategies.

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

#### Code of Ethics

In order to provide an understanding of Horizon's standards for meeting our fiduciary responsibility to clients, Horizon has developed a Code of Ethics. A copy of the Company's Code of Ethics is available to clients and potential clients upon request.

Horizon has a fiduciary duty to clients to act in the best interest of the client and always place the client's interests first and foremost. Horizon takes seriously its compliance and regulatory obligations and requires all staff to comply with such rules and regulations as well as Horizon's policies and procedures.

The Code of Ethics contains provisions for standards of business conduct in order to comply with applicable securities laws, personal securities reporting requirements, pre-approval procedures for certain transactions, code violation reporting requirements and safeguarding of material non-public information about client transactions. Further, Horizon's Code of Ethics establishes Horizon's expectation for business conduct.

Horizon's Code of Ethics is distributed to each employee at the time of hiring and as the Code is modified. In addition, Horizon requires an annual certification by all access persons regarding their understanding and compliance with the Code of Ethics. Horizon also supplements the Code with annual training and on-going monitoring of employee activity.

#### Participation or Interest in Client Transactions and Personal Trading

Under the Code of Ethics, personnel with access to investment recommendations and client information

are generally required to submit information about their personal trading activities to Horizon's chief compliance officer ("CCO") or the CCO's designee for review and advance approval. Violations of the Code may result in disciplinary action up to and including dismissal.

Horizon also tracks employees' holdings by obtaining annual holdings reports and quarterly certifications for its employees. In accordance with applicable law, Horizon also maintains and enforces written policies and procedures reasonably designed to prevent the misuse of non-public information by Horizon or any person associated with Horizon. Further, employees are prohibited from trading on non-public information or sharing such information.

Certain employees of Horizon and their relatives have personal trading accounts or Horizon-managed investment advisory accounts at the same financial institutions as some of Horizon's other non-affiliated clients. Employees and related persons of Horizon (any advisory affiliate and any person that is under common control with Horizon) can buy or sell securities identical to those securities recommended to clients. Therefore, related persons will have an interest or position in certain securities that are also recommended and bought or sold to clients. Some employees and related persons have their accounts in the same models as other clients. Horizon trades their accounts in the same manner as other clients, and may not trade employee or related persons' accounts ahead of other clients or trade in such a way as to obtain a better price for the employees or related persons compared to clients.

## **Item 12. Brokerage Practices**

For each trade where it exercises discretion to make brokerage determinations for a client account, Horizon seeks "best execution", which is a combination of price and execution relative to our instructions, and other factors.

### *Brokerage Selection*

In making brokerage determinations, Horizon considers a number of judgmental factors, including, without limitation, clearance and settlement capabilities, quality of confirmations and account statements, the ability of the broker to settle the trade promptly and accurately, the financial standing, reputation and integrity of the broker-dealer, access to markets, research capabilities, market knowledge, any "value added" characteristics, Horizon's past experience with the broker-dealer, Horizon's past experience with similar trades, and other factors. Recognizing the value of these factors, Horizon may pay a brokerage commission in excess of what another broker might have charged for effecting the same transaction.

### *Soft Dollar Transactions*

Recognizing the value of the above-described factors Horizon considers when it has discretion to choose the broker for a client transaction, Horizon may pay a brokerage commission in excess of what another broker might have charged for effecting the same transaction. Consistent with the foregoing, Horizon may generate "soft dollars" from brokerage transactions to be used for "brokerage" or "research" services pursuant to the safe harbor of Section 28(e) of the Securities Exchange Act of 1934. In a soft dollar arrangement, an investment adviser receives credit from a brokerage firm based on the commissions paid by the adviser's clients. The adviser uses these credits to pay for research and brokerage products and services (e.g., market data research), which can be provided by the broker or a third party. Soft dollar arrangements can create an incentive for an adviser to use a broker based on an interest in receiving research and other products or services, rather than the client's interest in receiving the most favorable execution.

Horizon receives research and/or brokerage services through soft dollar arrangements, and in so doing, receives a benefit because it does not have to produce or pay for the research or services. As such, we may have an incentive to direct trades to specific broker-dealers based on our interest in receiving the research

or other services, rather than on our clients' interest in receiving the lowest commission. In light of our fiduciary obligations to all our clients, we may use soft dollar benefits to service accounts that do not necessarily pay for the benefits (via soft dollar commissions; certain client accounts are traded through brokerage arrangements where soft dollar benefits are not available). We do not seek to allocate soft dollar benefits to client accounts proportionately to the soft dollar credits the accounts generate. We also subscribe and pay for a number of resources ourselves that we consider fundamental for us to provide quality research for our clients. There are other resources available that would be helpful to our clients, and when part of the decision to step-out or trade-away a position has the added benefit of providing these additional research resources, we believe it is advantageous to our clients to consider that factor. Our overall evaluation of the merits of using a step-out trade versus executing through the various brokers for the underlying accounts considers factors that include not only the trading benefits to participating and nonparticipating accounts but also the research benefits to all clients. We evaluate our decisions carefully and make decisions that we believe are in the best interests of our clients. This can include considering that the research benefits are valuable to our clients for managing their accounts. We believe we balance these considerations appropriately and in our clients' best interests.

Research and/or brokerage services obtained with soft dollars include payment for the use of market data made available through Bloomberg L.P., Morningstar and MPI Stylus.

#### *Directed Brokerage*

For clients at some custodians and for Third Party Advisors who have affiliated brokers, Horizon may accept directed brokerage instructions from clients. When a client directs brokerage, Horizon, due to a lack of discretion, may not be able to achieve most favorable execution of client transactions, and the client may pay higher brokerage commissions.

#### *Aggregated Trades*

Horizon aggregates blocks across custodians wherever possible. However, some custodial relationships prevent Horizon from including those accounts in the same block. In these cases, Horizon may aggregate trades for client accounts at the same custodian into a "block". If Horizon has multiple blocks making the same trade, Horizon's general policy is to use a block rotation process to enter trade orders for execution. In addition, you should note that Horizon may also aggregate trades for itself or for its access persons with client trades, provided that the applicable account participates in its respective block.

For new accounts and for existing accounts adding cash, Horizon allocates those accounts once the cash clears and is freely investible. Thus, there is a possibility (especially on volatile days in the markets) that one client can get a better price than another, due to the timing that the cash comes into the client accounts and the rapidity of the market price movements.

### **Item 13. Review of Accounts**

Horizon has a committee that meets regularly to review transactions and allocation models. Client accounts are screened for allocation differences and rebalancing.

Clients should receive a monthly and/or quarterly statement from their respective custodian(s) summarizing all trades made during the month or quarter, account balance information and the amount of fees paid from the account.

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

Horizon has entered into solicitor relationships with other investment advisers, broker-dealers and financial planning firms whereby the solicitor will refer to Horizon their clients or other persons that may be a candidate for the investment advisory services offered by Horizon. Horizon compensates these solicitors on a negotiated basis for soliciting business for Horizon. Compensation to solicitors will be an

agreed upon a percentage of Horizon's advisory fee. Horizon's referral program is in compliance with the federal regulations as set out in Rule 206(4)-3 of the Advisers Act.

### **Item 15. Custody**

Accounts are custodied at the various firms that hold client accounts. Such firms are "qualified custodians" as defined under the Advisers Act. Horizon will not maintain custody of clients' funds or securities, with the exception of deduction of Horizon's fees from clients' accounts that are authorized in the advisory agreement between clients and Horizon. Clients will receive account statements directly from these custodians and should carefully read the statements for accuracy.

### **Item 16. Investment Discretion**

For client accounts over which Horizon has investment discretion, Horizon has this authority pursuant to the terms of the client's investment advisory agreement with Horizon.

When selecting securities and determining amounts, Horizon observes the investment policies, limitations and restrictions of the particular client. For registered investment companies, Horizon's authority to trade securities may also be limited by certain federal securities and tax laws that require diversification of investments and favor the holding of investments once made.

### **Item 17. Voting Client Securities**

Note: The investment advisory agreement between Horizon and each client indicates whether or not Horizon votes proxies for the client. In most cases, Horizon does not have proxy voting authority over client accounts. Horizon does maintain proxy voting authority for the Mutual Funds and Collective Funds.

*For those clients for which Horizon does not vote proxies:*

These clients are advised that Horizon does not vote proxies on clients' behalf nor does Horizon take responsibility in any way to ensure clients' securities are voted. Clients retain the responsibility for voting their own proxies.

*For those clients for which Horizon does vote proxies:*

In voting proxies for clients, Horizon is committed to voting in the manner that serves the best interests of the client (e.g., the fund and its shareholders or individual clients). In determining the appropriate vote for a proxy, Horizon takes into consideration what vote is in the best interests of the client consistent with the provisions of Horizon's Voting Guidelines. Horizon does not allow a client to direct Horizon's vote.

With respect to the Mutual Funds, Horizon has engaged a third party proxy voting service provider ("Provider") to vote proxies. Horizon has established voting rules with the Provider to vote any such proxies in the best interests of the applicable fund and in accordance with Horizon's procedures. Furthermore, with respect to voting proxies for ETFs, Horizon (either directly or through the Provider) may vote proxies pursuant to a "mirror voting" arrangement under which shares are voted in the same manner and proportion as the votes of other shareholders.

In cases where Horizon is aware of a proxy voting conflict between the interests of a client and the interests of Horizon or an affiliated person of Horizon (e.g., a portfolio company is a client or an affiliate of a client of Horizon), Horizon will notify the applicable client of the conflict and will either abstain from voting or vote the applicable shares in accordance with the client's instructions.

If you would like a copy of Horizon's Proxy Voting Policy, you may contact us at the address and phone



number on the cover page of this Brochure. In addition, we can provide clients and Mutual Fund shareholders with a record of how Horizon voted proxies for the applicable client account upon request. Information regarding how Horizon voted proxies for each Mutual Fund are available through the SEC's web site, [www.sec.gov](http://www.sec.gov).

**Item 18. Financial Information**

Horizon does not require or solicit prepayment of fees six months or more in advance, and Horizon currently does not have any financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients.