

SMITH HAYES

Advisers, Inc.

Registered Investment Adviser

SMITH HAYES ADVISERS, INC. WRAP FEE PROGRAM BROCHURE

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Dated: September 1, 2015

ITEM 1 – COVER PAGE

This wrap fee program brochure provides information about the qualifications and business practices of SMITH HAYES Advisers, Inc. as required by Appendix 1 of Part 2 A of Form ADV. Form ADV is the form we file to register and be licensed to do business as investment advisers and comply with federal and/or state securities laws. The information presented is responsive according to the sequential “Items” of the form. If you have any questions about the contents of this brochure, please contact us at the numbers above. 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 SMITH HAYES Advisers, Inc. also is available through the SEC’s website www.adviserinfo.sec.gov (click on the link, select “investment adviser firm” and type in our firm name). Through this link you will be able to obtain our entire Form ADV.

We are registered as an investment adviser with the SEC. Our federal registration does not imply any level of skill or training. The oral and written communications we provide to you, including this Brochure, is information that you should use to evaluate us (and other advisers) to hire us or to continue using our services.

ITEM 2 – MATERIAL CHANGES

If you have been a client in the past, you have been provided a copy of what was called Schedule H of Part II of Form ADV (“Old Wrap Program Brochure”). Instead of providing that to you, new rules require us to provide you with this new “Brochure” drafted as Appendix 1 to Part 2A of Form ADV which contains much of the same information in the Old Wrap Program Brochure, but it is now in a plain English and hopefully easier to read and understand. It also contains some additional disclosures not specifically required by the Old Wrap Program Brochure but required by the new rules.

As a result, this entire “Wrap Fee Program Brochure” should be considered “materially new” to existing clients, although you will recognize most of the disclosures as similar or identical to what you have read in the past. In future versions of the Brochure, this section of the Brochure will address only those “material changes” that have been incorporated since our last amendment. We may, at any time, update this Brochure and if we do we will either send you a copy or offer to send you a copy (either by electronic means (email) or in hard copy form). If you would like another copy of this Brochure, please download it from the SEC Website as indicated above or you may contact our Chief Compliance Officer, Ruth Howell.

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ITEM 4 SERVICES, FEES AND COMPENSATION

We and our affiliated broker dealer, SMITH HAYES Financial Services Corporation (“SHFSC”), are wholly owned subsidiaries of SMITH HAYES Companies. SHFSC is a broker dealer and member of Financial Industry Regulatory Authority (“FINRA”). SHFSC shares offices with us in Lincoln, Omaha and Columbus, Nebraska, but also has an office in Scottsbluff. Our licensed investment adviser representatives (IARs) are also licensed as registered representatives of SHFSC and are located primarily in our offices in Lincoln, Omaha and Columbus, Nebraska.

We generally provide “Investment Supervisory Services”, however we also provide services not constituting investment supervisory services. We define Investment Supervisory Services as giving you continuous advice about securities and making investments for you based on your individual needs. When you use any of our investment advisory services, you will sign an agreement that will describe the type of services we will provide and the fees charged. A summary of our different agreements appears later in this section.

Tailored Relationships

Your goals and objectives are documented in our client management files. You may always impose restrictions on how we advise you and if we have discretion to trade for you, limit our ability to effect trades and otherwise make investments for you in certain securities or types of securities.

When we establish a relationship with you, we meet with you and may assess and determine, as applicable, your

- financial objectives
- financial problems
- cash flow needs
- insurance programs
- needs for educational funding
- retirement plans and or entity succession.

We are not lawyers or accountants, however at your direction we will work with your other professionals as needed.

In implementing our investment advice for you, our agreement will provide that we may do so on a discretionary basis (we decide what and when to buy or sell) or on a non-discretionary basis (you tell us what and when to buy or sell). You decide what authority we have. In most cases, your securities transactions will be placed through SHFSC under a limited power of attorney. We generally do not recommend broker/dealers other than SHFSC, but will do so if SHFSC cannot effect a trade for your account, or if you ask us to.

You may choose to pay a management fee plus other fees including, but not limited to, commissions, transaction costs per ticket, and account administration; or the client may elect to bundle all costs into one of our wrap fee programs. The Advantage I Account is a nondiscretionary “wrap fee” account. The Advantage II Account is a standard discretionary “wrap fee” account. None of our wrap accounts are offered with a performance based fee, however we offer a private equity fund for qualified clients that is managed under a performance based fee.

Wrap Program Management Fees

Individual Nondiscretionary Wrap Accounts – the Advantage I Account

Advantage I Account Fees	
Equity and Balanced Portfolios	2.5 % for first \$2,000,000; declining thereafter
Fixed-Income Portfolio	2.5 % for first \$2,000,000; declining thereafter
Mutual Fund Portfolios	2.5% for first \$1,000,000; declining thereafter

Individual Discretionary Wrap Accounts – the Advantage II Account

Advantage II Account Fees	
Equity and Balanced Portfolios	2.5 % for first \$2,000,000; declining thereafter
Fixed-Income Portfolio	2.5 % for first \$2,000,000; declining thereafter
Mutual Fund Portfolios	2.5% for first \$1,000,000; declining thereafter

Fees cover the cost of investment management; account administration, including tax reporting of gains and losses; brokerage transaction, legal and transfer fees and performance reporting expense. Advisory accounts may be structured to incur a negotiated management fee with or without ancillary transactional cost depending on the individual portfolio needs.

Fees are based upon the market value of the portfolio as of the previous quarter-end and are payable at the beginning of each quarter. Fees are negotiable. There is no minimum account size for the Advantage I or II Account. A minimum fee of \$250 per quarter or \$1,000 annually per account is charged on all existing Advantage Accounts.

Our Wrap Fee Programs may cost more or less than purchasing the services separately. This is dependent upon the amount of trading in an account and the

required administrative and custodial services necessary to maintain the portfolio.

Our Investment Advisory Representatives (IARs) may act as the portfolio managers for the wrap accounts and receive a portion of the compensation paid to us, up to 80% of the fees paid. The compensation may be more or less than what the person would receive if you participated in other programs we offer or paid separately for investment advice, brokerage, and other services. Therefore, the IARs may have a financial incentive to recommend our Wrap Fee Programs over other programs or services.

With a wrap account that invests in mutual funds, you may access a selected list of both load and no-load mutual funds. You have the ability to build a portfolio of mutual funds without incurring sales charges or paying any liquidation fees.

Mutual funds incur their own management and custody fees and other expenses which are described in the prospectus for each fund. Clients invested in mutual funds, ETFs and similar pooled investment vehicles therefore indirectly bear these additional costs and expenses. Funds may pay us 12b-1 and servicing fees for marketing, servicing, and distribution services and we may also pay the IARs a portion of these fees.

Clients that invest in some securities, such as municipal bonds, while not paying commissions for the trades may, however, purchase or sell such securities in transactions which includes a mark- up or mark-down or spread from par value, which compensates the broker dealer for the transaction. Your IAR will receive a portion of the markup on new issue municipal securities. Securities purchased with a markup will not be assessed the quarterly management fee for the first 12 months of ownership.

ITEM 5 ACCOUNT REQUIREMENTS AND TYPES OF CLIENTS

Our Wrap Fee Programs are available to individuals, banks, thrift institutions, investment companies, pension and profit sharing plans, trusts, estates, charitable organizations, corporations, and other businesses.

Upon opening any SMITH HAYES Advisers, Inc. Advantage Account, you will first be asked to complete a questionnaire that will define your objectives, investment background, and request additional information necessary to begin the relationship. Your investment objectives will be reviewed periodically. You should advise your IAR of any changes to your investment objectives.

ITEM 6 PORTFOLIO MANAGER, SELECTION AND EVALUATION

Accounts Managed by Portfolio Managers outside of SMITH HAYES Advisers, Inc.

You have the option of selecting portfolio managers other than our portfolio managers. We will assist you in the selection of a manager based upon your investment objectives, tax status, cash flow, return objectives, investment style, and other pertinent factors. Once a portfolio manager is selected, you will enter into a separate agreement with the portfolio manager setting forth the circumstances of that arrangement.

Accounts Managed By Our Portfolio Managers

Our IARs provide portfolio management services under the wrap programs. Internal managers offer advice regarding a wide range of investments including equity securities, warrants, commercial paper, municipal and government securities and investment company securities. Security analysis methods may include fundamental analysis, technical analysis or a combination of the two. The main sources of information include financial newspapers and magazines, inspections of corporate activities, research materials prepared by others, corporate rating services, annual reports, prospectuses, filings with the Securities and Exchange Commission, and company press releases. Other sources of information that we may use include Morningstar Principia mutual fund information and Morningstar Principia stock information.

The investment strategy for you is based upon the objectives stated by you during consultations. You may change these objectives at any time.

Risk of Loss

All investment programs have certain risks that are borne by the investor. Our investment approach constantly keeps the risk of loss in mind. Investors face the following investment risks:

- **Interest-rate Risk:** Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline.
- **Market Risk:** The price of a security, bond, or mutual fund may drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's particular underlying circumstances. For example, political, economic and social conditions may trigger market events.
- **Inflation Risk:** When any type of inflation is present, a dollar today will not buy as much as a dollar next year, because purchasing power is eroding at the rate of inflation.

- **Currency Risk:** Overseas investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This is also referred to as exchange rate risk.
- **Reinvestment Risk:** This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e. interest rate). This primarily relates to fixed income securities.
- **Business Risk:** These risks are associated with a particular industry or a particular company within an industry. For example, oil-drilling companies depend on finding oil and then refining it, a lengthy process, before they can generate a profit. They carry a higher risk of profitability than an electric company, which generates its income from a steady stream of customers who buy electricity no matter what the economic environment is like.
- **Liquidity Risk:** Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many traders are interested in a standardized product. For example, Treasury Bills are highly liquid, while real estate properties are not.
- **Financial Risk:** Excessive borrowing to finance a business' operations increases the risk of profitability, because the company must meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations may result in bankruptcy and/or a declining market value.

Proxy Voting

We generally do not accept the responsibility to vote proxies on securities. Clients will retain sole authority to vote the proxy.

Review of Portfolio Managers

We monitor the performance of our internal and any of the client's selected outside portfolio managers on an ongoing basis and do so on the same basis. This includes a suitability review, but will not include oversight of the third party portfolio manager's reporting. Performance information provided by third party managers may not be calculated on a uniform and consistent basis and may not be a fair basis for comparisons. Portfolio performance is measured and reported to a client quarterly. Dividends, interest, realized gains and losses, and any contributions or withdrawals for the portfolio are accounted for on a daily basis. Various indices' returns will be included (such as the S&P 500 or Morningstar Averages) so the client will be able to measure their performance against industry standards.

ITEMS 7 AND 8 CLIENT INFORMATION PROVIDED TO PORTFOLIO MANAGERS AND CLIENT CONTACT WITH PORTFOLIO MANAGERS.

We will provide the selected portfolio manager relevant information regarding your investment objectives and risk tolerance at the inception of the account. The information will be updated as needed. You will have access to portfolio managers and our IARs that manage their accounts during normal business hours. You are encouraged to contact and consult with investment representatives or portfolio managers to help assure the investment representative or portfolio manager has up-to-date information about your life changes or current financial objectives.

ITEM 9 ADDITIONAL INFORMATION

Periodic Reviews

Generally, the IAR that was the primary relationship with you will review the account as agreed with you. This generally is at least once each year. The primary supervision is the responsibility of the Designated Supervisors. The Designated Supervisors delegate to the designees to perform daily transaction review and random audits to test compliance of internal policies, and review account portfolios for suitability and portfolio management practices. Material discrepancies are brought to the attention of the Designated Supervisors for resolution. In addition, the Internal Auditor performs quarterly reviews of a sample of advisory accounts. The Compliance Officer performs a review of the advisory services and supervision at least annually. Other conditions that may trigger a review are changes in the tax laws, new investment information, and changes in a client's own situation.

Account Statements

All assets are held at qualified custodians which means the custodians provide account statements directly to clients at their address of record at least quarterly.

Performance Reports

You are urged to compare the account statements received directly from their custodians to the performance report statements provided by us, and report any discrepancies to the IAR or Supervisor of the IAR.

Affiliations

We have arrangements that are material to our advisory clients with SHFSC. SHFSC is a broker/dealer, an insurance agency, and from time to time creates or syndicates limited partnerships and other forms of investment entities.

We and SHFSC are wholly owned by SMITH HAYES Companies. SHFSC is a registered introducing broker/dealer that may effect purchases and sales of securities on our behalf.

Legal and Disciplinary

On January 24, 2005, we entered into a Consent Order with the Nebraska Department of Banking and Finance regarding an alleged violation of the Nebraska Securities Act Neb. Rev. Stat. § 8-111103(1) arising out of our failure to properly register six of our investment advisor representatives as investment advisor representatives in Nebraska in 2002, 2003, 2004 and 2005. The six investment advisor representatives in question were fully-qualified to engage in the activities of investment advisor representatives and had taken all required examinations, however, through an administrative oversight the registration applications had failed to be filed with the Department of Banking and Finance. In agreeing to the Consent Order, we paid a fine of \$1,500 for each of the representatives and paid all back registration fees for the investment advisor representatives. In addition, we agreed to take whatever action is necessary to insure compliance with provisions of the Nebraska Securities Act in the future.

Code of Ethics

Our Supervised Persons have committed to a Code of Ethics. A copy of the Code of Ethics is available upon request. The purpose of the Code of Ethics is to outline general standards of conduct for our Supervised Persons. Our Supervised Persons may purchase investments that it recommends to clients. The Code of Ethics defines Access Persons and Supervised Persons and addresses the following: Confidentiality and Conduct, Conflicts of Interest and Reporting Requirements, and Gifts and Entertainment.

Participation or Interest in Client Transactions

Our Supervised Persons may buy or sell securities that are also purchased or sold by clients. They may not trade their own securities ahead of client trades. Supervised Persons comply with the provisions of our Compliance Manual.

Principal transactions with advisory clients are primarily limited to fixed-income investments. When appropriate and with the consent of the advisory client upon execution, transactions may be executed between the client and SHFSC, acting in its dealer capacity. Clients will receive a principal letter with the details of the transaction, and must consent before settlement of the transaction.

Personal Trading

The Chief Compliance Officer of SHAI is Ruth Howell. She, or her designee, reviews employee trades. The personal trading reviews ensure that the personal trading of employees does not affect the markets, and that clients of the firm receive preferential treatment.

Conflicts Of Interest

In its capacity as a full-service broker/dealer, SHFSC makes its complete array of products and services available to our investment advisory clients. From time to time, recommendations may be made to clients investing in securities in which the applicant and/or its officers and/or supervised persons may have existing incidental long or short securities positions.

Principal transactions offered to advisory clients are primarily limited to public underwritings covered by a prospectus for fixed income investments. When appropriate and with the consent of the advisory client prior to execution, transactions may be executed directly between the client and SHFSC, acting in its dealer capacity. The client must receive disclosure information regarding pricing, best execution, and possible conflicts of interest when SHFSC acts in the capacity of principal prior to settlement of the transaction.

SHAI and SHFSC may execute cross transactions between an advisory account and a brokerage account. Cross transactions are not allowed where clients are "advised" on both sides of the transaction, which includes solicited, discretion-exercised and advisory transactions. There is no commission charged to advisory clients in a cross transaction other than the investment advisory fee, unless otherwise agreed upon in writing. Clients will receive an annual summary of their cross transactions.

We recommend the use of SHFSC and its clearing firm to execute the majority of account transactions. The use of one broker/dealer may limit the ability to provide best price and execution to its clients. Clients may incur additional transaction costs when over-the-counter trades are placed on their behalf through its clearing firm on an agency basis.