

## Form ADV Part 2A: Appendix – Wrap Fee Program Brochure

### Item 1 – Cover Page

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This **Wrap Fee Program Brochure** provides information about the qualifications and business practices of Hanson McClain Advisors and details for the **Individual Managed Asset Program**. 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 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 item provides information regarding specific material changes and a summary of such changes made to this Wrap Fee Program Brochure since the last annual update of the brochure which occurred in March 2015. We have increased the maximum annual fee we charge for our services from 1.25% to 1.50%. We have also made revisions to the Custody section because our custody procedures no longer require us to engage an independent accounting firm to perform an annual surprise verification exam.

We no longer receive price discounts from TD AMERITRADE for their automatic portfolio rebalancing service, known as “iRebal”, and have updated the Brokerage Practices section accordingly.

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 – Services, Fees and Compensation

Hanson McClain, Inc. doing business as Hanson McClain Advisors, Hanson McClain Financial Services and Hanson McClain Investment Advisors (referred to as “HMA” in this document) has developed and sponsors the **Individual Managed Asset Program** (referred to as “Program”) program. The Program is a wrap-fee program. Only investment advisor representatives of HMA may serve as portfolio managers in the Program. Therefore, participants in the Program must be advisory clients of HMA. The following bullets provide basic background regarding our Firm.

- HMA is an investment advisor registered with the United States Securities and Exchange Commission.
- HMA 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.

#### **The Program sponsored by Hanson McClain Advisors**

Under the Program, HMA provides investment supervisory services defined as giving continuous investment advice to a client and making investments for the client based on the individual needs of the client. Through this service, HMA offers a customized and individualized investment program for clients. Various investment strategies are provided under the Program; however, a specific investment strategy and investment policy is crafted for each client to focus on the specific client’s goals and objectives.

HMA shall obtain information from clients to determine each individual client’s financial situation and investment objectives. Accounts are managed on the basis of each client’s financial situation and investment objectives. At least quarterly, clients are instructed to notify HMA 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 accounts managed under the Program. At least annually, HMA shall contact individual clients to determine whether their financial situation or investment objectives have changed, or if the client wants to impose and/or modify any reasonable restrictions on the management of accounts managed. HMA shall be reasonably available to consult with individual clients

relative to the status of their accounts. Clients shall have the ability to impose reasonable restrictions on the management of their accounts, including the ability to instruct HMA not to purchase certain securities. 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 account. A separate account is maintained for each client with the custodian and clients retain right of ownership of the account (e. g. right to withdraw securities or cash, exercise or delegate proxy voting, and receive transaction confirmations).

Upon establishment of a Program account, HMA will be granted trading authorization on the client's account. Accounts managed through the Program are typically done so on a discretionary basis. However, upon a client's request, HMA will manage Program accounts on a non-discretionary basis. Clients must opt-in to provide HMA the ability to manage accounts on a discretionary basis. The opt-in of such authority must be memorialized in the *Individualized Managed Asset Program Client Agreement*. When discretionary authority is granted, it is limited in that HMA will only be given discretionary trading authority. This authority will allow HMA to determine the type of securities and the amount of securities that can be bought or sold for the client portfolio without obtaining the client's consent for each transaction.

HMA or a related person does not act as a principal (buys securities for itself or sells securities it owns to any client) in the Program. HMA or a related person does not affect transactions in which client securities are sold to or bought from a brokerage (commission-only) client.

Program accounts must be established on a brokerage platform selected by HMA. Not all investment advisors require a specific broker/dealer, but due to operational reasons, HMA requires all accounts to be opened on an HMA-approved platform. See below for more information.

### **Suitability**

HMA will assist clients in determining their objective(s), investment strategy, and investment suitability, prior and subsequent to opening a Program account. Clients must advise HMA of any changes in their investment objective(s) and/or financial situation.

HMA's services are always provided based on the individual needs of the individual client. Clients are given the ability to impose restrictions on their accounts including specific investment selections and sectors.

When managing client accounts through our Program, we will generally manage a client's account in accordance with one or more models reviewed by our Investment Committee. However, the determination to use a particular model or models is always based on each client's individual investment goals, objectives and mandates. More information about our models and strategies is provided at Item 6.

### **Investment Advisory and Administrative Services Provided by Envestnet Tamarac.**

HMA works with Envestnet Tamarac. (referred to as "Tamarac") for certain administrative functions including utilizing their technology platforms to support data reconciliation, performance reporting, fee calculation and billing. They also provide client database maintenance, quarterly performance evaluations, payable reports, web site administration, models, trading platforms, and other functions related to the administrative tasks of managing client accounts. Due to this arrangement, Tamarac will have access to client accounts. A brief outline of the services and functions performed by Envestnet are outlined below.

- Tamarac makes available tools to assist HMA with performance analysis and due diligence screening.
- Account aggregation, reconciliation and reporting services
- Position and performance reporting functions and features
- Account billing and fee administration

HMA and Tamarac are non-affiliated companies. Tamarac charges HMA an annual fee for services based on assets under management and flat rate fees for individual Tamarac modules the firm uses. The annual fee is paid from the portion of the overall management fee charged by HMA.

**Brokerage, Clearing and Custody – Hanson McClain and National Financial Services, LLC**

Currently, some Program accounts are opened and processed by Hanson McClain, a full service broker/dealer under common ownership with HMA, and then cleared through National Financial Services, LLC (referred to as "NFS") a registered broker/dealer member FINRA/SIPC. Because transactions are implemented through Hanson McClain, all investment adviser representatives must also be securities agents licensed with Hanson McClain. HMA's investment advisor representative will execute all transactions in his/her capacity as a securities agent of Hanson McClain.

NFS is not affiliated with Hanson McClain or HMA. In addition to serving as the clearing broker/dealer, NFS serves as the qualified custodian for some Program accounts.

Advisor representatives of HMA are registered securities agents of Hanson McClain and are required to use the services of Hanson McClain and Hanson McClain's approved clearing broker-dealer when acting in their capacity as registered securities agents. Hanson McClain serves as the introducing broker-dealer. All accounts established through Hanson McClain will be cleared and held at National Financial Services which acts as the qualified custodian.

The option to use Hanson McClain is based on HMA's decision that HMA can provide efficient and cost-effective services through its affiliated broker/dealer. However, the use of an affiliated broker/dealer is an inherent conflict of interest between HMA and its clients because allowing HMA clients to use Hanson McClain as the broker/dealer allows Hanson McClain to retain brokerage revenue that would otherwise be retained by an unaffiliated broker/dealer. However, HMA/Hanson McClain attempt to control for this conflict of interest in Program accounts by Hanson McClain not retaining any portion of the Program management fees even though Hanson McClain serves as introducing broker/dealer for Program accounts. Clients should understand that not all investment advisors require the use of a particular broker/dealer or require the use of a broker/dealer that is affiliated with the investment advisor.

The requirement to use National Financial Services LLC ("NFS") (which is not affiliated with Hanson McClain/HMA) is based on the fact that Hanson McClain has established a clearing agreement with NFS as its preferred clearing broker/dealer and qualified custodian. Because HMA and Hanson McClain are under common ownership and have mutual executive officers and control persons, the decision to use NFS was mutually determined by both Hanson McClain and HMA. The decision to use NFS is based on past experiences, minimizing brokerage expenses and other costs as well as offerings or services NFS provides that Hanson McClain, HMA or clients may require or find valuable. There are some investment advisors that permit the use of multiple broker/dealers and permit clients to select the broker/dealer. HMA has considered the positive factors to this approach which include the ability to better negotiate brokerage costs such as transaction fees, the ability to better analyze speed of execution, and the ability to compare and negotiate services. Considering all factors in relation to HMA's structure and capacities, HMA has concluded that multiple brokerage arrangements selected by HMA (including Hanson McClain/NFS) is a

better policy than utilizing one brokerage platform. However, the current policy may change in the future and if HMA decides to change brokerage arrangements all clients will be made aware of the change in policy.

Hanson McClain does not receive a portion of the Program fees for its brokerage services. Commission and fee structures of various broker/dealers, along with services, research and tools are periodically reviewed by HMA in order to evaluate the overall execution services provided by Hanson McClain, NFS and any other broker/dealers. Accordingly, while HMA will consider competitive rates, it may not necessarily obtain the lowest possible commission and brokerage rates for client account transactions. Therefore, the overall services provided by Hanson McClain, NFS and any other broker/dealers selected by HMA are evaluated to determine the level of best execution provided to clients. However, considering HMA requires its clients to use the brokerage services of Hanson McClain, NFS or another broker/dealer selected by HMA, HMA may not be able to achieve the *most* favorable execution of client transactions and therefore HMA's practice of requiring the use of Hanson McClain, NFS or another broker/dealer selected by HMA may cost clients more money compared to advisory programs offered by other investment advisors.

While clients may be able to attain brokerage services with lower costs and expenses, clients should be aware of some of the qualitative factors HMA considers for selecting Hanson McClain/ NFS and any other broker/dealers as its required Program brokerage platform. These factors include, but are not necessarily limited to, being able to rely on the internal staff of Hanson McClain to provide operations, trading, and other services.

NFS is able to provide numerous specialized service groups and a Client Service Manager who is dedicated to servicing Hanson McClain and Program accounts. Their back-office system generates over 400 exception reports designed to monitor all aspects of brokerage accounts, including trading, money movement, transfers, and client account data. Client paperwork is processed through a secure electronic workflow system. NFS's electronic trading platform provides a real-time order matching system, ability to "block" client trades, Program investment models, automated rebalancing, account balance and position information, and access to over 350 mutual fund families, including Fidelity funds and 4500 mutual funds not affiliated with Fidelity, of which over 2,000 have no transaction fees. Clients may access their account information over the internet, including balances, transactions, positions, statements, confirmations, and tax documents. Advisory fees can be calculated on aggregated account balances and are debited directly from client accounts.

#### **Brokerage, Clearing and Custody – TD AMERITRADE**

In lieu of opening a Program account through Hanson McClain, clients may have the option to establish accounts directly at TD AMERITRADE Institutional as a result of HMA's participation in the TD AMERITRADE Institutional program. TD AMERITRADE Institutional, a division of TD AMERITRADE Inc. is a registered broker/dealer, member FINRA/SIPC/NFA ("TD Ameritrade"), and will serve as the client's qualified custodian and maintain physical custody of all client funds and securities. You must designate HMA as your investment advisor on the accounts you'd like HMA to manage. HMA will be granted limited power-of-attorney on the account to implement trades within the account and (when agreed to by the client) deduct HMA advisory fees from the account.

TD AMERITRADE is an independent and unaffiliated broker-dealer. TD AMERITRADE offers to independent investment advisors services which include custody of securities, trade execution, clearance and settlement of transactions. There is no direct link between our participation in the program and investment advice that we give to clients, although our recommendation (and in some cases requirement)

to use TD AMERITRADE is partially based on economic benefits received by HMA through our agreement with TD AMERITRADE Institutional that are typically not available to TD AMERITRADE retail investors. These benefits include the following products and services (provided without cost or at a discount): receipt of duplicate client statements and confirmations; research related products and tools; consulting services; access to a trading desk serving HMA participants; access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to client accounts); the ability to have advisory fees deducted directly from client accounts; access to an electronic communications network for Client order entry and account information; access to mutual funds with no transaction fees and to certain institutional money managers; and discounts on compliance, marketing, research, technology, and practice management products or services provided to HMA by third party vendors. TD AMERITRADE may also have paid for business consulting and professional services received by HMA's related persons. Some of the products and services made available by TD AMERITRADE through TD AMERITRADE Institutional may benefit HMA but may not benefit all Program accounts. These products or services may assist HMA in managing and administering Program accounts, including accounts not maintained at TD AMERITRADE. Other services made available by TD AMERITRADE are intended to help HMA manage and further develop its business enterprise. The benefits received by HMA or its personnel through participation in TD AMERITRADE Institutional do not depend on the amount of brokerage transactions directed to TD AMERITRADE. As part of its fiduciary duties to clients, HMA endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the receipt of economic benefits by HMA or its related persons in and of itself creates a potential conflict of interest and may indirectly influence HMA's choice of TD AMERITRADE for custody and brokerage services.

HMA also receives from TD Ameritrade certain additional economic benefits ("Additional Services") that are not offered to all other independent investment advisors participating in the program. Specifically, the Additional Services include funds to be utilized by HMA for new technology platforms that include Envestnet Tamarac portfolio accounting/management software.

#### **Brokerage, Clearing and Custody – Fidelity Institutional Wealth Services**

HMA has an arrangement with National Financial Services LLC, and Fidelity Brokerage Services LLC (together with all affiliates, "Fidelity") through which Fidelity provides HMA with Fidelity's "platform" services. The platform services include, among others, brokerage, custodial, administrative support, record keeping and related services that are intended to support intermediaries like HMA in conducting business and in serving the best interests of their clients but that may benefit HMA.

Fidelity charges brokerage commissions and transaction fees for effecting certain securities transactions (i.e., transactions fees are charged for certain no-load mutual funds, commissions are charged for individual equity and debt securities transactions). Fidelity enables HMA to obtain many no-load mutual funds without transaction charges and other no-load funds at nominal transaction charges. Fidelity's commission rates are generally considered discounted from customary retail commission rates. However, the commissions and transaction fees charged by Fidelity may be higher or lower than those charged by other custodians and broker-dealers.

Fidelity agrees to pay up to a maximum of \$150,000 for eligible transition related expenses incurred in connection with the conversion of accounts from Hanson McClain, a full service broker/dealer under common ownership with HMA, and then cleared through National Financial Services, LLC (referred to as "NFS") a registered broker/dealer member FINRA/SIPC.



As a result of receiving such services for no additional cost, HMA may have an incentive to continue to use or expand the use of Fidelity's services. HMA examined this potential conflict of interest when it chose to enter into the relationship with Fidelity and has determined that the relationship is in the best interests of HMA's clients and satisfies its client obligations, including its duty to seek best execution. A client may pay a commission that is higher than another qualified broker-dealer might charge to effect the same transaction where the HMA determines in good faith that the commission is reasonable in relation to the value of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealer's services, including the value of research provided, execution capability, commission rates, and responsiveness. Accordingly, although HMA will seek competitive rates, to the benefit of all clients, it may not necessarily obtain the lowest possible commission rates for specific client account transactions. Although the investment research products and services that may be obtained by HMA will generally be used to service all of HMA's clients, a brokerage commission paid by a specific client may be used to pay for research that is not used in managing that specific client's account. HMA and Fidelity are not affiliates, and no broker-dealer affiliated with HMA is involved in the relationship between HMA and Fidelity.

#### **Brokerage, Clearing and Custody – Schwab Advisor Services**

HMA has an arrangement with Schwab Advisor Services ("Schwab") through which Schwab provides HMA with Schwab's "platform" services. The platform services include, among others, brokerage, custodial, administrative support, record keeping and related services that are intended to support intermediaries like HMA in conducting business and in serving the best interests of their clients but that may benefit HMA.

Schwab charges brokerage commissions and transaction fees for effecting certain securities transactions (i.e., transactions fees are charged for certain no-load mutual funds, commissions are charged for individual equity and debt securities transactions). Schwab enables HMA to obtain many no-load mutual funds without transaction charges and other no-load funds at nominal transaction charges. Schwab's commission rates are generally considered discounted from customary retail commission rates. However, the commissions and transaction fees charged by Schwab may be higher or lower than those charged by other custodians and broker-dealers.

Schwab agrees to reimburse HMA clients who select Schwab as their custodian up to a maximum of \$25,000 for eligible Transfer of Account exit fees.

As a result of receiving such services for no additional cost, HMA may have an incentive to continue to use or expand the use of Schwab's services. HMA examined this potential conflict of interest when it chose to enter into the relationship with Schwab and has determined that the relationship is in the best interests of HMA's clients and satisfies its client obligations, including its duty to seek best execution. A client may pay a commission that is higher than another qualified broker-dealer might charge to effect the same transaction where the HMA determines in good faith that the commission is reasonable in relation to the value of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealer's services, including the value of research provided, execution capability, commission rates, and responsiveness. Accordingly, although HMA will seek competitive rates, to the benefit of all clients, it may not necessarily obtain the lowest possible commission rates for specific client account transactions. Although the investment research products and services that may be obtained by HMA will generally be used to service all of HMA's clients, a brokerage commission paid by a specific client may be used to pay for research that is

not used in managing that specific client's account. HMA and Fidelity are not affiliates, and no broker-dealer affiliated with HMA is involved in the relationship between HMA and Schwab.

### **Aggregation of Client Orders**

Transactions implemented by HMA for client accounts are generally effected independently, unless HMA 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 HMA. Even if more advantageous to clients, HMA does not typically aggregate orders. If HMA 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 HMA clients in proportion to the purchase and sale orders placed by an individual HMA investment representative for each client account on any given day. When HMA determines to aggregate client orders for the purchase or sale of securities, including securities in which an associated person of HMA may invest, HMA will do so in accordance with the parameters set forth in the SEC No-Action Letter, *SMC Capital, Inc.* It should be noted, HMA does not receive any additional compensation or remuneration as a result of aggregation.

### **Trading Error Policy**

HMA 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 HMA 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 but will not 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 HMA or Hanson McClain if the error was caused by HMA or Hanson McClain.

Hanson McClain may maintain gains resulting from correcting a trade error that are not retained by the client and in some instances may use such gains to offset overall losses Hanson McClain incurs from trading errors.

For TD AMERITRADE and Fidelity accounts, TD AMERITRADE and Fidelity will retain gains retained in the account and donate the net proceeds to charity. For SCHWAB accounts, SCHWAB will donate the amount of any gain \$100 and over to charity. If a loss occurs greater than \$100, Advisor will pay for the loss. Schwab will maintain the loss or gain (if such gain is not retained in your account) if it is under \$100 to minimize and offset its administrative time and expense. Generally, if related trade errors result in both gains and losses in your account, they may be netted.

### **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 is deemed to have custody over Program accounts. HMA and Hanson McClain have established the following procedures to ensure compliance with the SEC's Custody Rule.

- All client funds and securities are held at a brokerage firm which serves as the qualified custodian 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.
- Account statements are delivered directly from the brokerage firm 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 HMA. When clients have questions about their account statements, they should contact HMA or the qualified custodian preparing the statement.

### **Program Fees**

Management fees for client accounts are calculated and billed in advance for each period (monthly or quarterly) based on the value of client account(s) at the end of the prior period. HMA or a third party service provider designated by HMA is responsible for the calculation and billing of management fees. Clients should check the accuracy of fees billed by HMA or a third party service provider designated by HMA. All fees will be noted on the Client's statements and/or confirmations.

The annual management fee charged for the Program may be negotiated with each client and is based on the client's assets under management, i.e. assets held in the account(s). The maximum annual fee charged in the Program is 1.50%. The client's HMA investment representative will provide the exact percentage based fee to each client based on both the nature and total dollar asset value of that account(s). The fee will be stated in the Client Fee Schedule which must be signed by both HMA and the client.

- The fee calculation will not take into account un-priced securities. Fees are calculated based on all investments held or connected with the account and include money market and cash balances. However, HMA may exclude from the fee calculation certain portions that are transferred in to a Program account as an accommodation, are not actively managed by HMA, or when a commission has been earned on the investment product such as a variable annuity product.
- The management fee will be based on the value of client account(s) at the end of each period with adjustments made for mid-period deposits or withdrawals exceeding \$10,000 on one day. Daily deposits and withdrawals of less than \$10,000 will not be adjusted for fee billing purposes and such funds will be included the value of client account(s).
- Accounts opened mid-period will be charged an initial management fee that includes a portion of the fee that is pro-rated for the number of days that the account is opened in the first period.

Fees are generally deducted directly from a client's brokerage account. Clients must provide written authorization to have fees deducted from the account and paid to HMA. The qualified custodian, i.e. NFS or TD AMERITRADE, will send client brokerage account statements, at least quarterly, showing all disbursements for the account including the amount of the advisory fee, when deducted directly from the

account. On an exception basis clients may have their Program management fees paid from non-managed accounts. Additionally, if a client has multiple managed accounts, they may choose to aggregate the fees charged in accounts to be deducted from a specified account. When fees are paid from other accounts, management fee debits will not be noted on the client's NFS monthly brokerage statements, rather they will be noted on the account they are deducted from.

Hanson McClain receives a percentage of the fee charged by NFS for money market positions held in Program accounts.

This program has been established as a wrap-fee program which means advisory services and transaction services are provided for one fee. This is different from non-wrap fee management programs whereby an investment advisor firm's services are provided for a fee, but transaction services are billed separately on a per-transaction basis. Currently, we only offer wrap-fee asset management services. As a wrap-fee program, fees paid to HMA by clients cover HMA's advisory services and all trade execution fees charged by Hanson McClain or the qualified custodian. Therefore, clients are not charged transaction fees separately from the program fee.

Specifically, the program fee will cover all commissions, prime broker fees, and any other transaction fees relating to the execution of securities transactions within client accounts. In addition, NFS receives up to 2 basis points of the total assets managed through Program on the NFS platform.

For TD AMERITRADE, FIDELITY and SCHWAB accounts, Hanson McClain pays all transaction costs charged by those custodians. There may be other operational fees charged by the custodian including, but not limited to, wire transfer fees, overnight check fees, account transfer fees and non-sufficient funds fees that are not covered by the program fee.

Because the program fee covers brokerage expenses, accounts with higher volume trading have the effect of reducing the net fee retained by HMA. Subsequently, the nature of a wrap-fee program creates a potential conflict between HMA's interests and the client's interests in that we may decide to **not** place trades in an account in order to avoid brokerage expenses (which will increase our fee revenue) rather than a client's interest of receiving most favorable investment opportunities.

To control for this conflict of interest while also balancing the goal of controlling brokerage expenses, HMA has established procedures designed to forensically determine which accounts to include when periodically rebalancing and reallocating account holdings in models. Rebalancing is used to return the asset mix and existing holdings back to their original target allocation percentages. Reallocation is used to change the allocation or to change the investments held in an account.

We do not automatically include all accounts in every rebalance and reallocation. Instead, we determine a dollar amount (i.e. threshold) under which adjustments to investment holdings will not have a material impact on the account. If we believe trading an account is in the best interests of the client because we anticipate a material impact, we will include the account in a rebalance or reallocation. However, if we determine including an account in a rebalance or reallocation will not have a materially positive impact, we will exclude the account in order to avoid unnecessary trading and brokerage expenses. It should be noted that we are more likely to exclude accounts from a rebalance rather than reallocation.

Program may cost the client more or less than purchasing such advisory and execution services separately. As disclosed in this section, HMA receives compensation as a result of a client's participation in Program. HMA therefore has a financial incentive to recommend Program over other programs or

services. The amount of HMA's compensation may be more than what a client would receive if the client participated in programs sponsored by other financial firms or paid separately for investment advice, brokerage, and other services.

In the event a client has purchased commissionable products being transferred to a Program account through an investment advisor representative in the investment advisor representative's capacity as a securities agent or insurance agent, HMA will offset or waive the management fee charged through Program. Any reduction will not exceed 100% of the commission received and will be disclosed to clients prior to beginning services or at the time the deduction is made.

Specific to accounts opened through Hanson McClain and NFS, Hanson McClain accepts compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds. Accepting this compensation may present a conflict of interest and give the firm an incentive to recommend investment products based on the compensation received, rather than on a client's needs. As such, the general practice of the firm is to recommend mostly "no-load" funds in the Program portfolios. Additionally, it is the general practice of the firm to exclude securities and investment products that the firm receives compensation on from the management fees. While it is not the normal practice of business, there may be accounts where clients are charged commissions in addition to their management fees. Clients have the option to purchase investment products that HMA recommends through other brokers or agents that are unaffiliated with HMA. Clients should review their agreement with HMA closely and contact their financial advisor with any questions.

HMA may select mutual funds that have higher internal fees and expenses for lower dollar amount accounts, i.e. accounts with assets between \$50,000 and \$100,000. The decision to select mutual funds with higher internal fees is a consequence of HMA selecting mutual funds with no-transaction costs. Typically, mutual funds with no-transaction costs will have higher internal fees and expenses. HMA generally selects no-transaction cost mutual funds for lower dollar amount accounts in order to minimize the portion of the Program Advisory fee covering transaction costs in Program accounts. Additionally, HMA may select certain no transaction fee ETFs, offered at each qualified custodian, as part of their portfolios for all accounts. Therefore, while the percentage based Program fee charged to clients is applied equally among Program accounts regardless of the dollar amount, lower dollar amount accounts may have higher overall fees and expenses than Program accounts exceeding \$100,000. While the Pathway Advisors Funds were designed for use in the Pathway Accumulation Strategies, in certain circumstances HMA may identify one of the individual funds as an appropriate investment for its clients outside of a self-directed retirement account. Should a purchase of the funds be executed on behalf of an HMA client, that portion of the client account will be excluded from our standard fee calculation process.

For TD AMERITRADE, FIDELITY and SCHWAB accounts, neither HMA nor Hanson McClain is eligible to receive any compensation for the sale of securities products or other investment products. All compensation, if any, is retained by those custodians.

### **Other Fees**

Clients shall also incur certain charges imposed by third parties other than HMA and Hanson McClain in connection with investments made through the account, including but not limited to, mutual fund sales loads, surrender charges, and IRA and qualified retirement plan fees charged by NFS, a product sponsor or other third party. Program fees charged by HMA are separate and distinct from the fees and expenses charged by investment company securities that may be recommended to clients. A description of these fees and expenses are available in each investment company security's prospectus.

### **Termination of Services**

Program services may be canceled at any time, by any of the parties, for any reason upon receipt of written notice to the other party. Services will be terminated without penalty and the client shall receive a pro-rated refund based on the amount of time remaining in the period. HMA will cooperate fully in any requests to deliver funds and securities held in the Account to another custodian. NFS and TD AMERITRADE, FIDELITY or SCHWAB may charge an Account Transfer fee. Transactions in a closed account are subject to Hanson McClain'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.

## **Item 5 – Account Requirements and Types of Clients**

### **Opening an Account**

To become a Program participant, an agreement (the *Individual Managed Asset Program Client Agreement*) between the client and HMA must be executed. In addition, the client will be required to establish a brokerage account through either Hanson McClain and held at NFS or other qualified custodian.

### **Types of Clients**

We offer advisory services to:

- Individuals
- Pension and profit sharing plans
- Trusts, estates, or charitable organizations
- Corporations

## **Item 6 – Portfolio Manager Selection and Evaluation**

The Program does not allow Investment Advisor Representatives (“IARs”) or clients to utilize portfolio managers that are not associated with HMA. In other words, the only portfolio managers selected for managing client assets in the Program are IARs of HMA.

Therefore, conflicts of interest present in other wrap-fee programs that make available both affiliated and unaffiliated portfolio managers are not present in this Program. Because the Program does not provide for a multitude of outside portfolio managers, HMA does not have procedures designed to select outside portfolio managers. Most of the items required by this item of the Wrap Fee Program Brochure instructions do not apply to HMA. Items that do apply are answered below.

### **General Description of Other Advisory Services**

Because IARs serve as portfolio managers of the Program, the following is provided as brief descriptions of HMA's primary services. Detailed descriptions of HMA's services other than the Program are provided in our Disclosure Brochure.

***Financial Planning.*** HMA provides advisory services in the form of financial planning services. Financial planning services do not involve the active management of client accounts, but instead focuses on a client's overall financial situation. Financial planning can be described as helping individuals determine and set their long-term financial goals, through investments, tax planning, asset allocation, risk management, retirement planning, and other areas. The role of a financial planner is to find ways to help the client understand his/her overall financial situation and help the client set financial objectives.

**Qualified Plan Consulting.** HMA provides several advisory services for corporate retirement plans, separately or in combination. While the primary clients for these services will be pension, profit sharing, and 401(k) plans, HMA will also offer these services, where appropriate, to individuals and trusts, estates and charitable organizations.

**Variable Sub-Account Management Services.** HMA manages variable annuity and/or variable life contract(s) by monitoring, advising, recommending and exchanging as necessary between sub-accounts available from the insurance company issuing the variable annuity or variable life contract(s). Our sub-account management services are provided to the sub-accounts of variable annuity and variable life contract(s).

**Pathway Accumulation Strategies.** In some situations, we may determine that a client (most commonly a pre-retiree client) would benefit from the investment strategies and offerings provided through our Pathway Accumulation Strategies platform. In these cases, we will consult with the client about using this service. Specifically we recommend the Pathway Accumulation Strategies which are intended for self-directed retirement accounts such as 401(k), 403(b) and 457 accounts. All accounts are managed according to investment models developed by Pathway Strategic Advisors and may be comprised of shares of the following Pathway Advisors Funds: Pathway Advisors Conservative Fund (PWCNX) and Pathway Advisors Aggressive Growth Fund (PWAGX).

**Pathway Focused Retirement Solutions.** In some situations, we may determine that a client (most commonly a pre-retiree client) would benefit from the investment strategies and offerings provided through our Pathway Focused Retirement Solutions program. In these cases, we will consult with the client about using this program. Specifically we recommend the Pathway Focused Retirement Solutions program which is intended for self-directed retirement accounts such as 401(k), 403(b) and 457 accounts. All accounts are managed according to investment models developed by Hanson McClain Advisors and may be comprised of ETF and mutual fund shares offered by the individual self-directed retirement account custodian.

**Pathway Advisors Mutual Funds.** HMA provides investment advice and management services to two affiliated mutual funds.

- Pathway Advisors Conservative Fund (PWCNX)
- Pathway Advisors Aggressive Growth Fund (PWAGX)

The two mutual funds registered under the Investment Company Act of 1940 and 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 mutual 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 HMA. However, some of HMA's 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, HMA's 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 HMA is not technically the mutual funds' administrator and HMA is not affiliated with the Trust, HMA has an incentive and inherent conflict of interest to recommend and favor the mutual funds for the following reasons:

- HMA's officers and owners are personally responsible for the formation (including covering a significant portion of the start-up costs) of the Funds.
- HMA 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 HMA's fees. Increases in mutual fund assets will result in increases in the management fee paid to HMA.

HMA furnishes the mutual funds with certain administrative services and provides most of the personnel needed to fulfill HMA's obligations as the investment advisor.

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

**Newsletters.** HMA provides a quarterly newsletter to its clients. This newsletter contains general, educational and informational articles. Non-clients may also subscribe to this newsletter by contacting HMA. This newsletter is free of charge for clients and non-clients.

**Seminars.** HMA and its associated persons may also provide seminars to the public on general, informational and educational topics. There are no fees charged for these seminars.

**Specialization.** HMA considers its self to specialize in retirement planning, investment and wealth management. Our IARs work with each client to focus on their individual retirement, planning and investment needs, as applicable. More details regarding our specific services are described in Item 5 of this brochure. In addition, you should refer to Item 8 for a description of some of the common risks associated with our advice and services.

**Advice on Certain Types of Investments.** We typically construct each client's account holdings using low-fee mutual funds, no-load mutual funds, equity positions, and fixed income positions to build diversified portfolios. While not common, clients may have variable annuity products linked to the Program account so that HMA may manage the variable annuity sub-accounts. It is not HMA's 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.

We are willing to offer advice on most types of investments owned by a client and, at the specific request of a client, will explore investment options not currently owned by a client. However, we do not offer advice on warrants, commercial paper, options, futures, commodities or private placements such as hedge funds and other unregistered securities.

The following are some of the general categories of securities we will advise.

- 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
- Variable life insurance/Variable annuities
- Mutual fund shares (open and closed ended)
- United States government securities
- Interests in partnerships investing in real estate

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

As thoroughly discussed in this brochure, HMA provides asset management services through our Individual Managed Asset Program which is a wrap-fee program. Under a wrap-fee program, Advisory services and transaction services are provided for one fee. This is different from non-wrap fee management programs whereby an investment firm's services are provided for a fee, but transaction services are billed separately on a per-transaction basis. Currently, we only offer wrap-fee asset management services.

### **Performance-Based Fees and Side-By-Side Management**

HMA does not charge or accept performance-based fees. Regulators have defined performance based fees as charging fees based on a share of capital gains on or capital appreciation of the assets held within a client's account.

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

The amount of clients assets managed by HMA totaled \$1,962,365,809 as of December 31, 2015. \$1,827,561,962 is managed on a discretionary basis and \$134,803,847 is managed on a non-discretionary basis.

### **Methods of Analysis, Investment Strategies and Risk of Loss**

#### **A. Method of Analysis**

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.

#### **B. Investment Strategies**

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.

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.

### **C. 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 may 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.

### **Voting Client Securities**

HMA does not vote proxies on behalf of Program clients. While there are some investment advisors that will vote proxies and other corporate decisions on behalf of their clients, HMA has determined that taking on the responsibility for voting client securities held in Program accounts 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 Program clients to vote all proxies for securities held in accounts managed by HMA through this Program.

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

### **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. HMA will not initiate such a legal proceeding on behalf of any of its clients 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. HMA recommends clients seek legal counsel prior to making a decision regarding whether to participate in such a class-action lawsuit. HMA's 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,

HMA 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 HMA be deemed as a substitute for consulting with legal counsel.

### **Item 7 – Client Information Provided to Portfolio Managers**

Because only IARs of HMA serve as portfolio managers, IARs or their assistants are responsible for gathering all information provided by clients. IARs will interview and work with clients to gather all information needed relative to their investment objectives and needs in order to provide management services through the Program. Clients need to contact their IAR whenever there are changes to their financial situation that will impact or materially influence the way HMA manages accounts.

### **Item 8 – Client Contact with Portfolio Managers**

Because only IARs of HMA serve as portfolio managers, there are no restrictions placed on clients' ability to contact and consult with their portfolio managers. It is the policy of HMA to provide an "open channel" of communication between IARs and their clients. Clients are encouraged to contact their IAR whenever they have questions about the management of their account.

### **Item 9 – Additional Information**

#### **Disciplinary Information**

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

#### **Other Financial Industry Activities and Affiliations**

HMA is **not** and does **not** have a related company that is a (1) futures commission merchant, commodity pool operator, or commodity trading HMA, (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.

#### **Affiliation with Hanson McClain Retirement Network, LLC**

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

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

Advisor representatives of HMA are also registered securities agents with Hanson McClain. When placing securities transactions through Hanson McClain in their capacity as registered securities agents, Hanson McClain receives sales commissions. HMA's advisor representatives will only recommend securities products to a client if such products are suitable for the client and appropriate for fulfilling the client's asset allocation strategy and objectives. In doing so, HMA, Hanson McClain, its associated persons and employees are prohibited from trading on material non-public information.

In addition to providing retail brokerage services, Hanson McClain provides marketing, consulting, and client acquisition services to other investment adviser firms, broker/dealers and their representatives through the Hanson McClain Retirement Network. Hanson McClain's registration as an investment advisor is not materially significant to 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 is also a licensed insurance agency and the associated persons of Hanson McClain and HMA may also be independently licensed to sell insurance products through various insurance companies. When acting in these capacities, commissions are paid to Hanson McClain for selling these products.

The compensation received from Hanson McClain may create a conflict of interest whenever an associated person recommends an insurance or investment product through Hanson McClain.

### **Code of Ethics Summary**

According to the *Investment Advisers Act of 1940*, an investment advisor is considered a fiduciary. As a fiduciary, it is an investment advisor's responsibility to provide fair and full disclosure of all material facts. In addition, an investment advisor has a duty of utmost good faith to act solely in the best interest of each of its clients. HMA and its supervised persons have a fiduciary duty to all clients. HMA 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 HMA's Code of Ethics. HMA and its supervised persons' fiduciary duty to clients is considered the core underlying principle for HMA's Code of Ethics and represents the expected basis for all supervised persons' dealings with clients. HMA 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 HMA's Code of Ethics. If current or prospective clients wish to review HMA's Code of Ethics in its entirety, a copy may be requested from any of HMA's supervised persons and a copy will be provided promptly.

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

HMA's 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 HMA that no associated persons shall prefer his or her own interest to that of the Advisory client. No person supervised by HMA 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. HMA 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.

As described previously in this brochure, HMA 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.

Hanson McClain, Inc. has recently engaged in instruments to protect the firm from severe drawdowns in equity markets. These instruments are not held by any Hanson McClain, Inc. clients and are not securities that Hanson McClain, Inc. would normally recommend to clients due to their sophisticated nature and limited liquidity. The instruments are invested in a “tail hedge” strategy which is similar to existing equities that Hanson McClain, Inc. has and may purchase for its clients.

### **Account Reviews and Reviewers**

Clients are contacted at least annually for the purpose of reviewing their account and to determine if there have been changes in their financial situation or investment objectives. The calendar is the main triggering factor, although more frequent reviews may also be triggered by changes in the client’s circumstances, client request, or changes within the market.

The underlying investments held in accounts and the recommended holdings in HMA portfolios are reviewed on a more frequent basis. Model portfolios are usually reviewed as frequently as monthly, but no less than quarterly. HMA Investment Management and Research is responsible for establishing model portfolios and determining their holdings. Triggering factors for changes to underlying portfolios include the relative valuation changes between asset classes, deviation from management style by fund, and fund closures. Investment Management and Research is responsible for ongoing rebalancing, reallocation and ongoing trading services for Program accounts.

### **Statements and Reports**

Clients receive statements and confirmations from qualified custodian of their account, i.e. National Financial Services or TD AMERITRADE, on at least a quarterly basis. Clients may opt-out of receiving confirmations for the Program. Clients may also receive quarterly, monthly, or on-demand reports showing the investment performance of their accounts from HMA. **Clients are urged to compare the reports provided by HMA against the account statements they receive directly from the account custodian.**

### **Client Referrals and Other Compensation**

#### ***Client Referrals***

HMA associated persons may receive a bonus when attracting new clients that contract for HMA services. Such bonuses are not available to all supervised persons and will only be provided if the supervised person is licensed as an HMA 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 HMA or transferred to Hanson McClain.

HMA 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, HMA 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 HMA 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 HMA and has no responsibility for HMA’s management of client portfolios or HMA’s other advice or services. HMA 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 HMA.

("Solicitation Fee"). HMA will also pay TD Ameritrade the Solicitation Fee on any advisory fees received by HMA 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 HMA on the recommendation of such referred client. HMA 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.

HMA's participation in AdvisorDirect raises potential conflicts of interest. TD Ameritrade will most likely refer clients through AdvisorDirect to investment advisors that encourage their clients to custody their assets at TD Ameritrade and whose client accounts are profitable to TD Ameritrade. Consequently, in order to obtain client referrals from TD Ameritrade, HMA may have an incentive to recommend to clients that the assets under management by HMA be held in custody with TD Ameritrade and to place transactions for client accounts with TD Ameritrade. In addition, HMA 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. HMA's participation in AdvisorDirect does not diminish its duty to seek best execution of trades for client accounts.

### ***Other Compensation***

Please refer to Item 4 for a description of the economic benefits received from NFS and TD AMERITRADE.

HMA's 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 Program fees. Hanson McClain receives a percentage of the fee charged by National Financial Services for money market positions held in the Program accounts. Further, some of the financial planning advice offered by HMA's advisor representatives involves investments in mutual fund products. Such products may be recommended in connection with financial planning advice or through the Program. Load and no-load mutual funds may pay annual distribution charges sometimes referred to as 12b-1 fees. Hanson McClain and HMA 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. HMA's 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 HMA/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 HMA/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 HMA's 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.

HMA's affiliate, Hanson McClain, has entered into an agreement with IntelliQuote Insurance Services to offer life insurance to clients of Hanson McClain and HMA. 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 an HMA client or prospective client purchases insurance products through IntelliQuote, Hanson McClain will receive a referral fee from IntelliQuote.

Hanson McClain, HMA 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, HMA and its affiliates do not guarantee any of the products or services advertised or offered for sale through IntelliQuote. Hanson McClain and HMA 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.

### **Financial Information**

This item is not applicable to this brochure. HMA does not require or solicit prepayment of more than \$1200 in fees per client, six months or more in advance. Therefore, we are not required to include a balance sheet for our most recent fiscal year. HMA is not subject to a financial condition that is reasonably likely to impair our ability to meet contractual commitments to clients. Finally, HMA has not been the subject of a bankruptcy petition at any time.

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