

Form ADV Part 2A - Brochure

HANSEATIC
MANAGEMENT SERVICES

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This brochure provides information about the qualifications and business practices of Hanseatic Management Services Inc. If you have any questions about the contents of this brochure, please contact us at 505-828-2824 or info@hanseaticgroup.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 Hanseatic Management Services Inc. is also available on the SEC's website at www.adviserinfo.sec.gov.

2. MATERIAL CHANGES

The filing of this other-than-annual ADV Part 2A (“brochure”) amends Hanseatic’s annual update brochure filed March 27, 2017. Material changes reflected in this other-than-annual update include a revision of *Section 5 Fees and Compensation* to separately address fees and compensation from institutional and private clients.

There has been no revision to Hanseatic’s ADV Part 2B (“biographies”) since the annual update filed on March 27, 2017.

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4. ADVISORY BUSINESS

Hanseatic Management Services, Inc. ("Hanseatic") was founded on June 9, 1995 and is currently owned by two employees: Russell T. Sanderson owns 51.32% and Brian R. Stangel owns 48.68%.

Hanseatic is in the business of providing investment advisory services by way of investment management as well as financial planning. For the majority of its business, Hanseatic provides traditional equity investment management on a discretionary basis through separately managed accounts for both institutional and private clients. Additionally, Hanseatic provides traditional equity investment management on a non-discretionary basis to a private fund manager and to a platform manager in the form of model portfolios for specific strategies. A small, but growing portion of Hanseatic's business provides investment management services for exchange-traded fund (ETF) investments, fixed-income investments, and financial planning services to private clients.

Depending upon each client's unique circumstances, objectives, and preferences, Hanseatic tailors its investment advisory services to the individual needs of its clients. Hanseatic requires a written agreement with each client outlining the scope of services. Investment management services and financial planning services require two distinct written agreements. When Hanseatic has discretion over an investment account, it manages each account in accordance with investment guidelines set by the client. Clients may impose restrictions on investing in certain securities or types of securities.

With regard to equity investment management, Hanseatic uses a proprietary, specialized quantitative investment process to construct diversified equity portfolios that dynamically adapt to changing market environments while actively managing risk. The robust investment process is driven by a diverse team and has attracted top institutions as investors. (*See Section 8, "Methods of Analysis, Investment Strategies, and Risk of Loss"*)

With regard to private client financial planning, Hanseatic provides comprehensive planning advice and primarily focuses on areas of cash flow management, debt management, investment planning, and educational, sabbatical &/or retirement funding. Hanseatic utilizes a network of professionals for comprehensive financial planning and/or specific financial planning objectives. Hanseatic does not provide accounting or legal services. Only with consent from a private client will Hanseatic work with other professionals to assist with coordination and implementation of agreed upon strategies. Fees for services by other professionals are charged in addition to Hanseatic's fees and billed directly from the other professional. Hanseatic will disclose any material conflicts of interest by the firm or any of its employees that could reasonably be expected to impair the rendering of unbiased and objective planning advice.

For investment management, Hanseatic offers domestic and international equity products. Domestic equity products include: Large Cap Institutional Equity, All Cap Growth Equity, All Cap Growth Concentrated Equity, Growth & Income Equity, Mid Cap Equity, Small Cap Equity, and SMID Cap Equity. International equity products include: Americas Equity, Developed Markets Equity, Latin America Equity and International Equity.

For financial planning, Hanseatic offers an initial planning consultation, a single issue planning option, a comprehensive financial planning option, and an on-going relationship option.

Hanseatic does not participate in wrap fee programs.

As of December 31, 2016 Hanseatic had \$197 million in assets under management. \$183 million were in discretionary accounts and \$14 million were in non-discretionary accounts.

5. FEES AND COMPENSATION

Hanseatic is a “fee-only” investment advisor which means the only source of compensation Hanseatic receives is from the client (i.e. Hanseatic does not receive commissions, referral fees, or any other compensation to recommend or sell third party financial products). Hanseatic charges separately for investment management and financial planning for transparency and objectivity purposes. Hanseatic has a conflict of interest when the scope of engagement for financial planning services includes investment planning. Hanseatic utilizes client interviews, risk questionnaires, and statement analysis of current investments to make investment recommendations. If appropriate, Hanseatic will recommend itself as the investment manager and recommend its equity investment products. Hanseatic’s fee schedules for investment management and financial planning are outlined below. Investment management fee schedules differ depending if the client is an institutional client or a private client. Investment management fee schedules are based on each separately managed account.

Investment Management Services Fees – Institutional Clients

Hanseatic’s standard investment management fee schedules for institutional clients are listed in the tables below. The actual fee schedule may be negotiated on a client-by-client basis and may differ from that stated.

Domestic Equity

	Large Cap Institutional	All Cap Growth	ACG Conc.	Mid Cap	SMID Cap	Small Cap	Growth & Income
1-5MM	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
5-10MM	0.60%	0.65%	0.85%	0.75%	0.85%	0.95%	0.60%
10-25MM	0.55%	0.60%	0.80%	0.70%	0.80%	0.90%	0.55%
25-50MM	0.50%	0.55%	0.75%	0.65%	0.75%	0.85%	0.50%
>50MM	0.45%	0.50%	0.70%	0.60%	0.70%	0.80%	0.45%

International Equity

	Latin America	Americas	Developed Markets	International
1-5MM	1.00%	1.00%	1.00%	1.00%
5-10MM	0.90%	0.70%	0.90%	0.90%
10-25MM	0.85%	0.65%	0.85%	0.85%
25-50MM	0.80%	0.60%	0.80%	0.80%
>50MM	0.75%	0.55%	0.75%	0.75%

Investment Management Services Fees – Private Clients

Hanseatic's standard investment management fee schedule for private clients is listed in the table below. Hanseatic's investment management fee is separate from Hanseatic's financial planning fee (*See Financial Planning Services Fees below*). The actual fee schedule may be negotiated on a client-by-client basis and may differ from that stated.

	All Products
0-1MM	1.25%
1-2.5MM	1.00%
2.5-5MM	0.80%
>5MM	0.60%

The investment management fee is payable quarterly, in arrears, at the beginning of each calendar quarter based on the market value of the assets in the account on the last day of each of the preceding three calendar months. Asset value means the total account net asset value as computed by the custodian including cash, accrued interest, taxes and accrued income from pending cash dividends, rights and warrants ("Custodian NAV").

Example:

Period	Custodian NAV	Annual Rate	Calculation	Monthly Fee
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Month 1	\$1,000,000.00	0.75%	$\$1,000,000.00 \times .0075/12$	\$625.00
Month 2	\$1,100,000.00	0.75%	$\$1,100,000.00 \times .0075/12$	\$687.50
Month 3	\$900,000.00	0.75%	$\$900,000.00 \times .0075/12$	\$562.50
Quarterly Total			Sum	\$1,875.00

Total Quarterly Investment Management Fee Assessed = \$1,875.00

If a client contributes funds to or withdraws funds from the account on a date other than the first day of a month, the account is charged a pro-rated portion of the management fee for that calendar month with respect to such contribution or withdrawal based on the number of days the funds were in the account.

Example: Withdrawal of \$500,000 on 12/22/16

Period	Custodian NAV	Annual Rate	Calculation	Monthly Fee
10/31/15	\$1,000,000.00	0.75%	$\$1,000,000.00 \times .0075/12$	\$625.00
11/30/15	\$1,100,000.00	0.75%	$\$1,100,000.00 \times .0075/12$	\$687.50
12/21/15	\$1,200,000.00	0.75%	$\$1,200,000.00 \times .0075/12 \times 21/31$	\$508.06**
12/31/15	\$700,000.00	0.75%	$\$700,000.00 \times .0075/12 \times 10/31$	\$141.13**
			Sum of pro-rated monthly fee.	\$649.19**
Quarterly Total			Sum	\$1,961.69

**Pro-rated monthly amount.

Total Quarterly Investment Management Fee Assessed = \$1,961.69

Payment of the investment management fee is made by one of two ways:

- i. The client gives prior authorization to the custodian that (a) authorizes Hanseatic to debit the account for the investment management fee up to a client-specified maximum amount, based on the account size and investment management fee to be charged, and (b) authorizes the custodian to pay Hanseatic directly no sooner than five (5) business days after the account statement is available at the custodian. The client is responsible for understanding and verifying the amount debited through the client's monthly custodian statement.
- ii. Hanseatic sends a quarterly invoice by email to the client and the client pays the investment management fee directly to Hanseatic.

Hanseatic's investment management clients may also pay custodial fees, administrative expenses, brokerage and other transaction costs. (See Section 12, "Brokerage

Practices”) Hanseatic does not accept payment of investment management fees in advance. Neither Hanseatic nor its employees accept any compensation for the sale of securities or other investment products.

Financial Planning Services Fees

Hanseatic offers a complementary, initial consultation for financial planning services. The consultation is a 30-60 minute session for potential clients to learn about Hanseatic and its services, discuss financial goals or concerns, and determine if formal financial planning is appropriate.

Hanseatic provides financial planning services only if mutually agreed upon. Prior to commencement of financial planning services, Hanseatic requires a written agreement that specifies the scope of the engagement, the duties of each party in the financial planning process, and the fee quote for the financial planning services.

Hanseatic offers a single issue planning option for those who need help or want a second opinion on a financial or investment issue. The single issue planning option includes an initial 30-60 minute data gathering/discussion session and a 30-60 minute follow up session with summary/recommendations. Hanseatic does not provide implementation support for single issue planning. Base fee for the single issue planning option is \$300, but varies depending on complexity. Clients receive a fee quote prior to commencement of the single issue planning option. Half of the fee is due at the beginning of the engagement and the other half is due at the follow up session. The single issue planning sessions is limited in scope and is designed to address a client’s most pressing financial issue. Single issue planning sessions are not designed to replace the benefit of more comprehensive financial and investment planning.

Hanseatic offers a comprehensive planning option for those who want guidance to reach financial goals. The comprehensive planning option includes an initial 30-60 minute data gathering/discussion session, a 60-90 minute follow-up session to convey the comprehensive financial plan, and at a client’s request, up to 2 hours of consultation over the following 12 months from date of plan presentation (either face to face in Hanseatic’s office, by email, by phone, or by video conference at client’s discretion) on planning issues and/or implementation of recommendations. Base fee for the comprehensive planning option is \$1500, but varies depending on complexity. Clients receive a fee quote prior to commencement of the comprehensive planning option. Half of the fee is due at the beginning of the engagement and the other half is due at the follow up session.

Hanseatic offers a subscription financial planning option for those who seek an ongoing planning relationship to meet financial planning goals. This option is generally available to clients after completion of comprehensive financial planning option, but may be offered to those with an appropriate and comprehensive pre-existing plan. Base fee for

subscription planning option is \$100 per month, but varies depending upon complexity. Clients receive a fee quote prior to commencement of subscription planning option. Subscription financial planning option fees are due in advance and on the 1st of every month. Subscription financial planning fees are prorated based on the number of days in the month if other than 1st of the month start date. The subscription planning option may be cancelled by either party with a 30 day written notice.

Should a client request services that are outside the scope of contracted services, Hanseatic may elect to charge an hourly fee of \$250.00 for such work. Hourly work will be undertaken and fees will be incurred only with a client's prior authorization.

Payment of financial planning fees are made by cash, check, or credit card.

6. PERFORMANCE-BASED FEES & SIDE-BY-SIDE MANAGEMENT

Hanseatic charges no performance-based fees on any of its accounts.

7. TYPES OF CLIENTS

Hanseatic provides investment advisory services primarily to institutional clients, including but not limited to, pension and profit sharing plans, state or municipal governments, insurance companies, and corporations. In addition, Hanseatic provides investment advisory services to private fund clients whose members are institutional investors. Some of these client relationships are established through an Investment Manager/Sub-Advisor contract, where Hanseatic is the Sub-Advisor. Hanseatic also provides investment advisory services to private clients.

Hanseatic's minimum account size for investment management is \$1,000,000; however, on a client-by-client basis, Hanseatic may accept a smaller account size. It is possible that the investment management fee for such accounts may be higher than the standard rates described in item 5. Hanseatic does not impose prerequisite requirements for financial planning services.

Regardless of client type or minimum account size, each Hanseatic client must execute a written contract that governs Hanseatic's investment advisory relationship with the client.

8. METHODS OF ANALYSIS, INVESTMENT STRATEGIES, AND RISK OF LOSS

Hanseatic's equity investment process is highly disciplined and robust. At the core of our process is a proprietary, quantitative model that generates a Q Score. Our equity investment process is applicable and repeatable across market conditions, sectors and geographies, allowing us to efficiently and effectively construct and manage a mix of traditional equity products.

The key driver of our investment team's buy and sell strategy is a dynamic, proprietary model that generates a Q Score for every stock reflecting its performance potential. Hanseatic's research and development process behind the Q Score spans over two decades. The resulting investment process allows us to evaluate a universe of stocks based on the benchmark our clients are interested in and assess each stock's strength. The Q Score is a dynamic identifier of strong market performers. Using the model, each stock is assigned a score from 1 to 9; the higher the score, the better reward/risk profile. Our investment team considers stocks with a positive Q Score as a potential buy and stocks with a Q Score of 0 are sold. Driven purely by quantitative analytics, this core part of our investment process is bias-free. The Q Score focuses our attention on the strongest individual stocks regardless of market conditions, geographies and sectors. With the Q Score established and universe of stocks narrowed significantly, our investment team then constructs a portfolio based on client requirements and a mix of drivers.

Recommendations in fixed income and/or ETF investments are based upon the professional investment judgement of the investment team. The investment team has worked together for over 25 years with combined market experience of almost 85 years. The results of the investment team's recommendations are not guaranteed.

Investing in securities involves risk of loss that clients should be prepared to bear. Hanseatic makes no representation that its investment program will be successful. The completeness of Hanseatic's investment program is determined by the written agreement with the client. Hanseatic's past performance is not a guarantee of future results.

Hanseatic's investment strategies are designed for investors with long term investment goals, as they involve substantial risks. The risks of Hanseatic's investment process include, but are not limited to, Hanseatic's skill in constructing portfolios and implementing the process, market risk, interest rate risk, inflation risk, and market capitalization risk. Frequent trading can affect investment performance, particularly through increased brokerage and other transaction costs and taxes. Hanseatic's sell disciplines are the single factor determining portfolio turnover.

The International Equity products expose investors to additional risks beyond risks associated with investing in developed markets. Emerging market risk includes significantly greater price volatility than developed markets, less liquidity, more government intervention in the economy, greater political uncertainty, including less certain tax policies, and less government supervision and regulation of securities markets and participants in those markets. Stock markets in many emerging market countries are relatively small, expensive to trade in and risky. Foreigners are often limited in their ability to invest in, and withdraw assets from, these markets. In addition, these products expose investors to currency risks. The value of investments denominated in a currency other

than US dollars is affected by changes in the US dollar in relation to the value of the foreign currency in which the investment is denominated. When the value of the US dollar falls in relation to the value of the foreign currency, then the value of the foreign investments rises. When the value of the US dollar rises, the value of foreign investments falls. Foreign currency exposure is unhedged.

9. DISCIPLINARY INFORMATION

Hanseatic and its management personnel are not subject to any legal or disciplinary event (including criminal or civil actions in domestic or foreign courts and administrative proceedings by state, federal or foreign regulatory authorities) that is material to any current or potential client's evaluation of Hanseatic's advisory business or to the integrity of Hanseatic's management. Nor have Hanseatic or its management personnel been subject to such events in the past.

10. OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

Neither Hanseatic nor any of its management personnel have any relationships or arrangements that pose material conflicts of interest to the business of Hanseatic.

11. CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

Hanseatic has adopted a code of ethics, contained within its SEC Compliance Manual (the "Manual"), which includes policies addressing business ethics, personal trading by employees, insider trading, ongoing ethics training, anti-money laundering, anti-fraud, professionalism in the workplace, and privacy and control of client information. A copy of the Hanseatic Manual is available upon request.

Hanseatic's personal trading policies apply to Hanseatic, its employees and their immediate family members (all "Access Persons"). Personal trading policies cover any purchases and sales of equities, bonds, ETF's, options on equities, or options on any other publicly traded commodity or security, commodity futures contract, derivative contract and fixed income securities, not just to securities and other assets held in client portfolios managed by Hanseatic.

In the event any of Hanseatic's Access Persons has a material financial interest in a security that is in a client portfolio managed by Hanseatic, Hanseatic's board will determine on a case-by-case basis what action should be taken to avoid any conflict that might disadvantage a Hanseatic client.

It is Hanseatic's policy to conditionally allow personal trading accounts by Access Persons. If an Access Person wishes to trade in individual equities, bonds, or ETF's, the personal trading account must be held at a Hanseatic approved custodian and must be

contained within one of Hanseatic's GIPS®-defined composites if appropriate to be traded alongside client accounts. For example, Hanseatic trades its own account which is comprised of an employee 401K account within the All Cap Growth Equity composite. As described in Section 12, "Brokerage Practices", Hanseatic aggregates orders for execution on a pre-allocated pro rata basis to help ensure fair and equitable treatment across various accounts.

New hires who hold individual equities, bonds, or ETF's prior to joining Hanseatic must obtain approval by Hanseatic to continue to hold and then pre-approval from the chief compliance officer before a sale. New hires will encounter a 24 hour black out period of the equity, bond, or ETF if it is traded by Hanseatic for a client account. New hires may acquire new equities, bonds, or ETF's or additional shares only by conditional trading policy described above.

If an Access Person wishes to trade in futures, options, or commodities, trading is allowed without pre-approval.

Hanseatic's Access Persons who engage in personal trading must provide Hanseatic with an initial holding report upon becoming an Access Person, quarterly statements of their trading, and an annual holding report.

Adhering to the policies incorporated into Hanseatic's Manual is a condition of employment at Hanseatic. If a Hanseatic employee is found to be in breach of Hanseatic's policies, then Hanseatic's CCO or board will take action ranging from a verbal warning to dismissal, depending on the circumstances of the breach.

12. BROKERAGE PRACTICES

In selecting and suggesting broker-dealers ("brokers") for client transactions, Hanseatic considers (i) the reputation of the broker in the financial community; (ii) past business experience, if any, with the broker; (iii) the range and quality of ancillary services provided by the broker; (iv) the broker's ability to execute in a timely, efficient, and error-free manner; (v) the expertise of the broker's registered representatives; (vi) the broker's ability to execute transactions in all of the markets in which Hanseatic offers products; and (vii) any client-specific requirements, e.g., a ceiling on brokerage costs. Hanseatic determines the reasonableness of the broker's commissions based on (i) Hanseatic's assessment of the broker's performance in the context of the foregoing seven factors and (ii) whether the broker commissions are reasonable in comparison to the charges of comparable brokers.

Hanseatic accepts no “soft dollar” benefits (i.e., research or other products or services from brokers who execute client transactions) nor does it direct brokerage as a reward for client referrals.

Clients directing brokerage to a particular broker may incur higher commission and other transaction costs than clients who authorize Hanseatic to select the broker. For example, if a Hanseatic client directs Hanseatic to place its trades with a certain broker, Hanseatic might be limited in its ability to negotiate commissions or volume discounts.

In the interest of best execution and to help ensure a fair and equitable basis for allocating trades among various clients, where possible and permitted by the client, Hanseatic aggregates orders for execution. Trades within an order are typically pre-allocated pro rata among client accounts in accordance with client guidelines. If the order is not completely filled, executed trades are allocated pro rata in accordance with the pre-allocations. If more than one trade is executed, the trades are booked to client accounts at an average price and commission rate. When average price fills are not possible, brokers are rotated to ensure equal treatment of accounts.

13. REVIEW OF ACCOUNTS

All equity securities positions held by Hanseatic’s clients are reviewed daily by at least two members of Hanseatic’s investment team. Bond and ETF’s held by Hanseatic’s clients are reviewed monthly by at least two members of Hanseatic’s investment team. Additionally, at least two team members must review each final decision prior to execution within any portfolio.

At least quarterly, Hanseatic furnishes to clients written statements of gains and/or losses, as well as any further analyses required by the client. At a minimum, each client receives an overview of performance and a basic attribution for the period relative to the specified benchmark and an outlook of the upcoming quarter.

14. CLIENT REFERRALS AND OTHER COMPENSATION

Hanseatic receives no compensation from non-clients for any activity related to its advisory business.

Certain employees of Hanseatic receive compensation in addition to their salary based upon a predetermined percentage of net profits as determined by the owners.

Hanseatic pays referral fees to unaffiliated persons or firms (“Solicitors”) who introduce private clients to the firm. Such Solicitors are paid a retainer fee and/or a percentage of the net profits derived from the client accounts they refer (“Referral Fee”), the specific amount of which is subject to negotiation, but documented in a written contract between

Hanseatic and the Solicitor. Solicitors may have a conflict of interest in advising prospective clients to retain Hanseatic. Solicitors for Hanseatic are required to provide the prospective client with a copy of this Brochure as well as a separate disclosure document that includes the following information before or at the time the prospective client enters into an investment advisory agreement with Hanseatic:

- the name of the Solicitor;
- Hanseatic is named as the investment advisor;
- the nature of the relationship between Hanseatic and the Solicitor;
- amount of the Referral Fee; and
- whether the management fee paid by the client to Hanseatic will be increased above normal fees in order to compensate the Solicitor.

Additionally, Hanseatic requires a written acknowledgement from a prospective client as to the receipt of this Brochure and the Solicitor's disclosure.

As a matter of practice, Hanseatic does not increase management fees paid by clients who are referred by Solicitors.

15. CUSTODY

Hanseatic does not take physical custody nor act as a custodian of client funds or securities. Clients receive account statements directly from their qualified custodians. Hanseatic encourages clients to carefully review all custodian statements and to compare those statements with any statements received from Hanseatic.

Hanseatic is deemed to have custody of client assets if it has the authority to withdraw its management fees from a client's account. Hanseatic follows the SEC's rules regarding this 'deemed' custody.

16. INVESTMENT DISCRETION

Hanseatic generally has discretionary authority to determine, without obtaining client consent, the securities to be bought or sold, the amount of such securities, the broker to be used, and the commission to be paid. This authority is given in the client contract. Any exception to this authority is dictated on a case-by-case basis per the client contract. In such cases, the client may be put at a disadvantage in terms of securities selection and execution of trades.

17. VOTING CLIENT SECURITIES

Hanseatic votes proxies only if required under the client contract. If required under the client contract, Hanseatic votes according to the client's proxy voting guidelines. Absent client guidelines, Hanseatic votes to maximize long-term shareholder value, to maintain

shareholder control, and to generally approve routine corporate matters. Hanseatic may evaluate some issues on a case-by-case basis, e.g., stock option and bonus plans, corporate combinations and divestments, shareholder proposals, and social/political proposals. Conflicts may arise with respect to voting, especially in cases where a client is the issuer of the securities being voted. Hanseatic's board will monitor events to identify any material conflicts and, if such conflicts arise, determine what action, if any, should be taken. Hanseatic utilizes Institutional Shareholder Services, Inc. ("ISS") as its proxy service. A copy of Hanseatic's proxy voting policies, including its current standing instructions with ISS, is available upon request. Specific proxy votes cast by Hanseatic are available upon request to clients who require Hanseatic to vote their securities.

Clients who do not require Hanseatic to vote proxies receive their proxies directly from their custodian. Clients may contact Hanseatic with an occasional question on a specific proxy; however, Hanseatic's guidance is to maximize long-term shareholder value, to maintain shareholder control, and to generally approve routine corporate matters.

18. FINANCIAL INFORMATION

Hanseatic does not require nor solicit prepayment of fees. Hanseatic has not been the subject of a bankruptcy petition at any time.