

MARCH 30, 2017

**Item 1 – Cover Page**

This ADV Part 2A (“Brochure”) provides information about the qualifications and business practices of HoyleCohen, LLC (“HC”). If you have any questions about the contents of this Brochure, please contact HC’s Chief Compliance Officer, Mark Delfino, at (858) 576-7300. 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.

HC is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information to use when considering to hire or retain an Adviser.

Additional information about HC is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by a unique identifying number, known as a CRD number. The CRD number for HC is 141125.

## Item 2 – Material Changes

As of March 30, 2017, there have been no material changes to this Brochure since its last update on March 30, 2016 as defined by SEC rules and requirements.

We will ensure that you receive a summary of any materials changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year. We will further provide you with a new Brochure as necessary based on changes or new information, at any time, without charge.

You may request a copy of this Brochure at any time by contacting Mark Delfino, Chief Compliance Officer, at (858) 576-7300. Additional information about HC is also available via the SEC's web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's web site also provides information about any HC affiliated persons who are registered, or are required to be registered, as investment adviser representatives of HC.

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## **Item 4 – Advisory Business**

HC is a wholly owned subsidiary of Focus Operating, LLC, which, in turn, is a wholly-owned subsidiary of Focus Financial Partners, LLC. HC has been providing advisory services (through it and its predecessor) since 2001.

As of December 31, 2016, HC managed \$823,129,312 in assets on a discretionary basis within our standard investment platform. In addition, we had \$88,632,230 in assets either in transition or outside of our standard platform.

### **Investment Management and Advisory Services:**

HC typically provides investment management and advisory services on a discretionary basis and primarily involves the use of mutual funds and ETFs that have been recommended and approved by the HC Investment Committee. We may allow non-discretionary accounts and client imposed restrictions on certain investments in certain limited or special circumstances. In addition, we conduct due diligence on third-party managers and/or investment strategies that we may recommend and facilitate investment into such supplemental investment programs. A client's investment with a third-party manager is either via a sub-advisory agreement, where HC takes the discretion to allocate client assets to a third-party manager and retains hire/fire authority over the third-party manager, or in the case of certain private investment funds and other supplemental investment programs, a recommendation to the client, but it is ultimately the client's decision whether or not to invest in the private investment funds.

We allocate a client's assets among various asset classes, in accordance with the client's specific goals, time horizon and any investment constraints of the client. Each client's portfolio is reviewed at least quarterly and rebalanced or adjusted when appropriate.

HC uses investment and portfolio allocation software to evaluate alternative portfolio designs. We may evaluate the client's existing investments with respect to the client's investment objectives. HC works with new clients to develop a plan of transition for moving from the client's existing portfolio to the portfolio recommended by us. HC will then continuously monitor the client's portfolio holdings and the overall asset allocation strategy and hold periodic review meetings with the client regarding the portfolio as necessary.

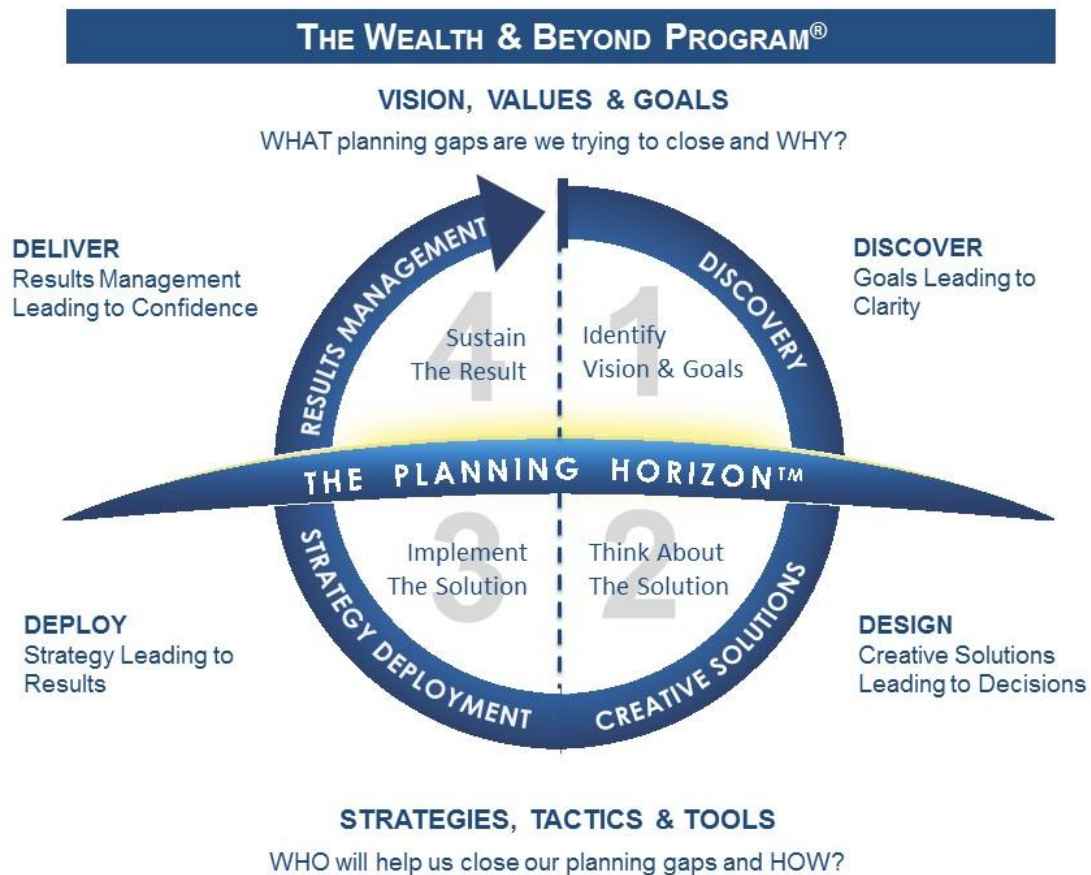
**Advanced Financial Planning/Wealth & Beyond Program® Consulting Services:**

Through our Wealth& Beyond Program® we also consult with clients on various financial areas including, but not limited to:

- ) income and estate tax planning
- ) sale of business interests structures
- ) college financial planning
- ) retirement planning
- ) insurance analysis
- ) personal cash flow analysis
- ) establishment and design of retirement plans and trust designs
- ) charitable intent / capacity
- ) real estate sale / rental analysis

A written financial planning or consulting report may be prepared. Should you choose to implement the recommendations contained in the plan, we suggest you work closely with your attorney, accountant, insurance agent, and/or financial advisor. Implementation of financial plan recommendations is entirely at your discretion.

HC's Wealth and Beyond Program® utilizes the following process:



Approximately 90% of HC's advisory billings are attributable to continuous investment management and advisory services with the remaining 10% attributable to other advisory services including, but not limited to financial planning.

## Item 5 – Fees and Compensation

### Investment Management and Advisory Services:

Clients pay us annual fees based on assets under management, generally determined according to the following fee schedule, or a flat annual fee.

<u>Total Portfolio Value</u>	<u>Annual Fee</u>
On the first \$500,000	1.50%
On the next \$2,500,000	1.00%
On the next \$2,000,000	0.80%
All assets over \$5,000,000	0.60%

Prior to providing investment management or advisory services, we agree on the exact fee with each client, dependent on variables such as specific situations, account size and specific investment requirements. We reserve the right to charge a minimum fee, reduced fee or no fee.

When calculating fees on accounts based on a percentage of total assets under management, we use the value of the assets on the last day of each quarter. The quarterly percentage is one fourth of the annual percentage and is charged in advance. It is your responsibility to verify the accuracy of the fee calculation and we strongly recommend that you review the statements you receive from your designated custodian. Fees may be prorated in the first partial quarter or the last quarter of our relationship. In cases where accounts are closed completely or in some special circumstances, the amount of the fee or refund and the timing of the payments may be negotiable. Lower fees for comparable services may be available from other sources.

HC may offer a discounted fee or waive fees entirely for employees of the firm and family members of firm employees.

#### **Financial Planning/Consulting Services:**

Financial planning and consulting fees will be charged as a fixed fee, typically ranging from \$2,500 - \$15,000 depending on the nature and complexity of each client's circumstances. Up to 100% of this fee may be due upon signing the agreement, with any balance due upon presentation of the plan to the client.

Clients may simultaneously be subject to HC's Investment Management & Advisory fee, the management fee of the mutual fund and/or third-party manager they are using, expenses associated with various products their portfolios may hold and/or transaction fees and administration costs from the custodian of their assets.

HC or you may terminate our advisory relationship at any time, for any reason, upon giving written notice. No fee is ever paid more than six months in advance for work that is not completed. HC may amend client fees upon 45 days advance written notice to the client, subject to the clients' right to terminate HC's services at any time by providing written notice.

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

HC does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client). All fees are calculated as described above and are not charged on the basis of income or capital gains or capital appreciation of the funds or any portion of the funds of an advisory client.

As disclosed under Item 4, HC may utilize sub-advisers in its management of client accounts, and typically retains hire/fire authority over such sub-advisers. Certain of the sub-advisers selected by HC may charge performance-based fees; however, HC does not share in any such performance-based fees.

## **Item 7 – Types of clients**

HC provides investment management and advisory services to individuals, high net worth individuals, corporate pension and profit-sharing plans and charitable organizations HC typically requires a minimum size of \$500,000 for client accounts, and reserves the right to charge a minimum annual fee for accounts that fall below this amount.

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

Our investment philosophy is simple: to attempt to attain the highest probability of success at the lowest possible risk. Our approach combines a blend of components into a proprietary process. The result is a customized portfolio that we believe positions our clients for long-term probability of achieving the financial security and wealth accumulation they need to meet their life's objectives. HC studies various sources of research to identify asset classes we believe will perform best over a long-term planning horizon and uses this to create "fair value" asset models. Over time, HC may overweight asset classes believed to be undervalued and allocate assets away from rapidly appreciating asset classes we feel have become overvalued. This approach creates stability. We do not chase "hot" areas. Empirical evidence reveals that such momentum investment strategies typically result in lower returns and higher volatility over the long-term. At HC we utilize an "open architecture" investment approach. Mutual funds, fund managers, and investment programs are selected based on a multi-step, bottom-up screening methodology geared toward providing superior risk-adjusted returns throughout bull and bear market cycles. HC puts a premium on funds, managers and asset classes which do well in volatile and declining markets.



HC uses mutual funds and exchange-traded funds (“ETFs”) and purchases third-party research for use when building internal investment model portfolios for clients and to aid in tactical allocation alterations. HC may employ fundamental analysis when reviewing a client’s existing holdings in special cases, such as concentrated stock positions or appreciated assets, or if a client presents a specific question. HC does not engage in individual stock analysis as an on-going service within its own managed investment portfolios.

HC uses software that creates a goals-based analysis designed to help measure the current probability of success of an individual attaining their prioritized goals. The software uses statistical data about clients’ actual and/or recommended assets to generate results for comparative purposes using asset class correlation and other client specific variables. Results are calculated using average returns and stress-tested via Bad Timing and Monte Carlo.

The Bad Timing illustration is calculated by using low returns in years one and two following retirement, and average returns for all remaining years of the plan. Monte Carlo simulations are used to show how variations in rates of return each year can affect results. A Monte Carlo simulation calculates the results of a plan by running it many times, each time using a different sequence of returns. The percentage of successful trials is shown as the probability that the plan, with all its underlying assumptions, could be successful.

HC offers a variety of investment programs to meet its clients’ needs of generating consistent income for those whom it is appropriate, diversification programs for clients with concentrated portfolios and tax-efficient programs for clients with high tax burdens. We will also utilize special programs to take advantage of periodic dislocations in the market and provide unique income and/ or growth opportunities. Finally, we may use structured products, options, and separate account managers for suitable clients in order to protect principal, secure gains and/ or generate income. Periodic reviews are performed to ascertain any changes in a client’s situation or objectives.

HC performs due diligence and conducts periodic phone reviews and/or on-site visits with fund managers as part of the selection and on-going due diligence process for The Enhanced Income Fund I, LLC and for the supplemental investment programs made available to clients.

### **Types of Investments**

HC defines client investment objectives using our Wealth & Beyond Program® and then matches them with one or more core model portfolios. The core model portfolios primarily utilize mutual funds and ETFs and span a spectrum of potential investment returns and risks from relatively conservative to relatively aggressive.

In addition, HC recommends and has developed special programs to address special needs or situations and to take advantage of periodic dislocations in the market. The supplemental programs are intended to complement the core model portfolios.

HC may recommend as a core substitute or as part of our supplemental programs, investing into, or provide advice on, limited partnerships, limited liability companies and the use of separate account managers. In addition, we may use structured products and options for suitable clients.

#### *Analysis of a Client's Financial Situation*

In the development of investment plans for clients, including the recommendation of an appropriate asset allocation, HC relies on an analysis of the client's financial objectives, current and estimated future resources, and tolerance for risk. To derive a recommended asset allocation, HC may use a Monte Carlo simulation, a standard statistical approach for dealing with uncertainty. As with any other methods used to make projections into the future, there are several risks associated with this method, which may result in the client not being able to achieve their financial goals. They include:

- ) The risk that expected future cash flows will not match those used in the analysis
- ) The risk that future rates of return will fall short of the estimates used in the simulation
- ) The risk that inflation will exceed the estimates used in the simulation
- ) For taxable clients, the risk that tax rates will be higher than was assumed in the analysis

#### *Risk of Loss and Other Investment Risks*

**Investing involves risk of loss that clients should be prepared to bear.**

All investments present the risk of loss of principal. The risk that the value of securities (mutual funds, ETFs and individual bonds), when sold or otherwise disposed of, may be less than the price paid for the securities. Even when the value of the securities sold is greater than the price paid, there is the risk that the appreciation will be less than inflation. In other words, the purchasing power of the proceeds may be less than the purchasing power of the original investment.

The mutual funds and ETFs utilized by HC may include funds invested in domestic and international equities, real estate investment trusts (REITs), corporate and government fixed income securities and commodities. Equity securities may include large capitalization, medium capitalization and small capitalization stocks. Mutual funds and ETF shares invested in fixed income securities are subject to the same interest rate, inflation and credit risks associated with the underlying bond holdings.

Among the riskiest mutual funds used in HC's investment strategies funds are the U.S. and International small capitalization growth and small capitalization value funds, emerging market equity and debt funds, high yield bond funds and commodity futures funds. Conservative fixed income securities have lower risk of loss of principal, but most bonds (with the exception of Treasury Inflation Protected Securities, or TIPS) present the risk of loss of purchasing power through lower expected return. This risk is greatest for longer-term bonds.

Certain funds utilized by HC may contain international securities. Investing outside the United States involves additional risks, such as currency fluctuations, periods of illiquidity and price volatility. These risks may be greater with investments in developing countries. More information about the risks of any particular market sector can be reviewed in representative mutual fund prospectuses and via additional research into applicable sectors and asset classes.

As part of its' advisory services, HC may recommend investments into direct real estate, mortgage notes, residential mortgage backed securities, Master Limited Partnerships (MLPs) and other private funds or special account programs. Because many of these strategies concentrate their investments in areas associated with the real estate industry, they may experience more volatility and be exposed to greater risk than the core model portfolios of mutual funds and ETFs. Additional risks that investors should be aware of are: credit risk, prepayment risk, possible illiquidity and default, as well as increased susceptibility to adverse economic developments.

### **Risks specifically associated with structured products**

HoyleCohen's Structured Products Program provides a way for HC to offer clients unique risk/return characteristics not broadly available through more conventional investment strategies. HC works directly with major banks to issue structured products designed to our specifications.

Every structured product will not be suitable for all investors. Each structured product exhibits an entirely different set of characteristics, risks, and rewards. It is possible individual clients may not participate in all structured products HC researches or offers. Advisors will determine which products, if any, are suitable on a client-by-client basis by comparing each client's risk profile and investment needs to the risk/return features of each structured product. While it is the intent of HC to hold most structured products until maturity, the ability to buy or sell allows HC to lock in gains or mitigate additional risks prior to maturity. Each structured product will have a prospectus and pricing supplement that contains a detailed explanation of risks, tax treatment, and other relevant information about a given offering. This information will be distributed by the custodian and made available to any client who is considering participating in a given offering.

Structured products are unsecured corporate debt issued by banks. Like traditional corporate bonds, they are subject to the risk of issuer default. They carry the credit rating of the issuing bank and participate equally (*pari passu*) with the issuer's other unsecured and unsubordinated obligations. However, barring any issuer credit incident, the terms of each structured product typically result in performance that is tied to other underlying indices and thus are not highly correlated with traditional bonds. For instance, the payout of a structured product might be linked to the performance of an underlying equity index, such as the S&P 500 Index. In addition, the same structured product might absorb some of the downside movement in that index in order to mitigate risk while also limiting or capping the maximum return through the product's stated maturity. The issuing bank typically creates the desired performance characteristics of each structured product by buying and/or selling a set of option positions.

While structured products may be new to many investors, the strategies and tactics behind them are similar to those in more widely used investment products. The structured products HC incorporates into its portfolio allocations have risk/return features which are subject to ongoing scrutiny by the HC Investment Department to ensure they are suitable for the client and appropriate for the potential investment environment during the life of the product.

**Risks specifically associated with private funds on the HoyleCohen platform.** HC offers a host of private funds to its clients based on suitability. HC believes the non-traditional asset classes accessed by these private funds offer the potential for diversification and superior risk-adjusted returns.

HC works diligently to identify opportunities, select proven managers, and negotiate favorable terms for its clients (such as reduced fees, redemption penalties and/or minimums) that are often unavailable to retail investors. After substantial upfront initial due diligence, involving several months and many hours of collaborative internal review, HC may decide to add a fund to its platform of approved investments. The process includes a structural, strategic, administrative, performance, risk, legal and reference review. HC provides ongoing diligence and oversight for its clients, conducting quarterly calls with each fund manager, and performing on-site visits.

Allocations to individual strategies vary by client suitability and circumstance, but can collectively represent a meaningful portion of a client's total account portfolio. HC has strict guidelines and procedures for determining and monitoring allocation to these strategies individually, by manager and overall.

Each private fund exhibits its own unique set of characteristics, risks and rewards, and thus will not be suitable for all investors. Some funds have additional suitability requirements such as Accredited Investor, Qualified Client or Qualified Purchaser status as determined by the SEC, which HC also adheres to when making recommendations to clients. Advisors will determine

which private funds, if any, are suitable by comparing each client's risk profile and investment needs to the risk/return features of each private fund.

## **Item 9 – Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of HC or the integrity of HC's management. HC has no information applicable to this Item.

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

As disclosed under Item 4, HC may select other sub-advisers on behalf of clients for management of specific investment strategies or styles. HC only selects unaffiliated investment advisers as part of this process, and in addition to the fee (management and/or performance-based) charged by the sub-adviser to the client, HC charges a management fee as agreed to with the client in the advisory agreement. As HC does not share in any fees charged by a sub-adviser, the potential conflict of interest inherent in such arrangements does not exist.

Janet Acheatel serves on the boards of the Jewish Community Foundation of San Diego, Hillel San Diego and Healthcare Businesswomen's Association. Chuck Ebersole serves on the board of General Produce, Sacramento. Elisabeth Cullington serves on the board of Fresh Start Surgical Gift. Ellen Sawyer serves on the board of the Mission Bay High School Alumni Association. Vanessa Wieliczko serves on the board of the CFA Society San Diego. Jeremy Kovacevich serves as the Chairman of the Board of the Financial Planning Association of San Diego.

In addition to advisory services, HC also may offer its advisory clients various insurance services through HC Insurance Services, LLC. HC may receive compensation for such insurance transactions separate from the compensation HC receives for its advisory services. This compensation, if received, is disclosed to the client before the transaction is completed, and does not affect the cost of the insurance to the client. Revenue from this type of compensation typically represents less than 1% of HC's total revenues each year.

HC is part of the Focus Financial Partners, LLC ("Focus") partnership. As such, HC is a wholly-owned subsidiary of Focus Operating, LLC ("Focus Operating"), which is a wholly-owned subsidiary of Focus. Focus also owns other registered investment advisers, broker-dealers, pension consultants, insurance firms, and other financial service firms (the "Focus Partners"). The Focus Partners provide wealth management, benefits consulting and investment consulting services, to individuals, families, employers, and institutions. Some Focus Partners also manage

or advise limited partnerships, private funds, limited liability companies or investment companies as disclosed on their respective Form ADVs

HC's clients are not solicited to invest in any other Focus Partners' advisory services, and generally Focus Partners do not recommend securities, services, or other investment products of other Focus Partner firms, unless so disclosed on their respective Form ADVs and with the clients' informed consent, nor are any transactions executed through another Focus Partner's affiliated broker dealer. Further, the Focus Partners do not market their services or share client information amongst each other without prior client consent. Management of other Focus Partners are not involved in the management of HC.

A list of the related person with whom HC has business dealings in connection with our advisory services, refers clients or business or shares supervised persons or premises, can be found on HC's Form ADV Part 1 Schedule D. All related investment advisers and broker dealers and additional information about Focus can be found at [www.focusfinancialpartners.com](http://www.focusfinancialpartners.com).

## **Item 11 – Code of Ethics**

HC has adopted a written Code of Ethics which incorporates an insider trading policy. The code establishes a standard of conduct and requires compliance with federal securities laws. The code also addresses personal trading and requires personnel to report personal securities holdings and transactions to the Chief Compliance Officer of the firm. HC will provide a copy of the Code of Ethics to any client or prospective client upon written request to HC's Chief Compliance Officer, Mark Delfino, at our main office address.

Managing Directors, employees and IARs of HC may buy and sell securities and other investment products that may also be recommended to its clients. HC Managing Directors, employees and IARs may undertake personal investment activities in direct opposition to recommendations made to clients. HC does not generally provide specific advice regarding common stocks. HC does provide advice regarding mutual fund and ETF selection. Mutual fund prices are set by net asset value and not by a bid-offer market. In addition, HC's volume of ETFs is minimal and as such, HC's personnel investment activity should have no measurable short-term effect on pricing.

It is HC's policy that the Firm will not affect any principal or agency cross securities transactions for client accounts. HC will also not cross trades between client accounts. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client. A principal transaction may also be deemed to have occurred if a security is crossed between an affiliated private fund and another client account. An agency cross transaction is defined as a

transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the advisory client and for another person on the other side of the transaction.

The following are some of the provisions within the Code of Ethics related specifically to insider trading: (1) restricting and/or monitoring trading on those securities of which HC's employees may have non-public information, (2) requiring all of HC's employees to conduct their trading through a specified broker or reporting all transactions promptly to HC, and (3) monitoring the securities trading of the firm and its employees and associated persons.

## **Item 12 – Brokerage Practices**

HC has established relationships with Charles Schwab and TD Ameritrade. Clients are requested to transfer the assets they wish to place under management to one of these firms to act as custodian. HC regularly reviews these programs to ensure that its recommendations are consistent with its fiduciary duty. These trading platforms are essential to HC's service arrangements and capabilities, and HC may not accept clients who direct the use of other brokers. For mutual fund, ETF and individual bond transactions, HC will place all client trades with the custodian selected by the client. HC has evaluated Schwab & TD Ameritrade and believes that each, for mutual fund, ETF and limited individual bond transactions, will provide HC clients with a blend of execution services, commission costs and professionalism that will assist HC in obtaining best execution for transactions. On at least an annual basis HC performs a review of these custodians against other peer firms to confirm that (for these transactions) clients are receiving best execution.

HC participates in the institutional advisor program (the "Program") offered by TD Ameritrade Institutional. TD Ameritrade Institutional is a division of TD Ameritrade Inc., member FINRA/SIPC/NFA ("TD Ameritrade"), an unaffiliated SEC-registered broker-dealer and FINRA member. TD Ameritrade offers to independent investment advisors services which include custody of securities, trade execution, clearance and settlement of transactions. HC receives some benefits from TD Ameritrade through its participation in the Program. HC also receives certain benefits for participating in the institutional adviser platforms maintained by Charles Schwab (please see the disclosure under Item 14 of this Brochure).

HC has also established a direct relationship with American Funds to act as custodian for some client 529 Plan accounts. When the custodian receives sufficient assets and the client and HC have agreed upon the investment strategy, HC will begin management of the client's account and

begin initiating transactions as appropriate. We may also establish direct relationships with others from time to time as we see fit.

When trading client accounts, errors may periodically occur. HC's policy is for clients to be made whole should any error caused by HC occur. Errors may also result in gains in client accounts, in which case the client may choose to maintain the trade and retain the gains or reverse the trade and the custodian would then retain the gains that would have occurred in the client account as a result of the error. HC's policy is meant to ensure clients are, at a minimum, placed in the position intended absent any error. Clients are requested to review the disclosure document of each sub-adviser utilized by HC for complete information on the brokerage practices of such firms.

### **Item 13 – Review of Accounts**

#### **Reviews:**

Transactional client account detail is examined daily by centralized operations and/or outside contracted personnel in order to identify inconsistencies and review the accuracy of securities trades, income distributions, cash balances, deposits or withdrawals. These personnel use an electronic download from the client's custodian and software-based accounting system to reconcile accounts. Centralized operations personnel make no investment decisions or recommendations to clients. In the course of the daily review, if any of these personnel identify one of the above changes to an account, he or she will consult with an IAR.

Investment Advisor Representatives review client accounts on a quarterly basis or as needed and manage anywhere between 30 and 150 client relationships. HC investment model accounts for clients are rebalanced as necessary to bring the asset allocation back in line with the current tactical asset allocation or when the client's investment objectives have shifted. IARs conduct periodic financial reviews with the client at agreed upon intervals and/ or as needed – no less than annually. The client's objectives are updated as needed after these periodic conversations and meetings.

The HC Investment Committee conducts periodic reviews of the HC model tactical allocations, mutual funds, ETFs, third party managers, the fixed income market, the state of its mortgage program and all supplemental investment programs. The Committee may suggest changes or reallocation for HC portfolio models and use of the supplemental investment programs. Mutual funds and ETFs will be selected or replaced according to HC's review of their success at meeting the investment objectives for which they were selected. Each IAR then assesses the Committee's recommendations for applicability to each client situation. Global asset allocation, potential tax



ramifications of investment changes and client specific variables are considered prior to the implementation of any portfolio adjustments.

### **Reports:**

In addition to the statements and confirmations of transactions that investment management clients receive from their account custodian, HC prepares and sends to each client a quarterly report that provides the market value of assets under management, advisory fees paid, and YTD investment performance.

HC will provide no regular reports for Financial Planning/Consulting clients. These clients receive such reports as specifically contracted for or as necessary to document recommendations and a plan.

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

As disclosed under Item 12 above, HC participates in Charles Schwab’s Schwab Advisor Services platform and TD Ameritrade’s institutional programs and recommends Schwab or TD Ameritrade to clients for custody and brokerage services. Through these services, HC receives real-time client account information, electronic download of transactions, balances and positions, and the ability to directly debit client fees. HC also receives software and services, including reductions in conference and seminar fees, from these service providers.

Schwab and TD Ameritrade each respectively provide HC with access to services not available to retail investors. These services generally are available to independent investment advisers on an unsolicited basis at no charge to the advisers. These services benefit HC but may not benefit its clients’ accounts. Many of the products and services assist HC in managing and administering clients’ accounts. These include software and other technology that provide access to client account data (such as trade confirmations and account statements), facilitate trade execution (and allocation of aggregated trade orders for multiple client accounts), provide research, pricing information and other market data, facilitate payment of HC’s fees from its clients’ accounts, and assist with back-office functions, recordkeeping and client reporting. Many of these services generally may be used to service all or a substantial number of HC’s accounts. Recommended brokers also make available to HC other services intended to help HC manage and further develop its business enterprise. These services include consulting, publications and conferences on practice management, information technology, business succession, regulatory compliance, and marketing. HC does not, however, enter into any commitments with the brokers for transaction levels in exchange for any services or products from brokers. While as a fiduciary, HC endeavors to act in its clients’ best interests, HC’s requirement that clients maintain their assets in accounts

at Schwab or TD Ameritrade may be based in part on the benefit to HC of the availability of some of the foregoing products and services and not solely on the nature, cost or quality of custody and brokerage services provided by the brokers.

TD Ameritrade may also have paid for business consulting and professional services received by HC's related persons. Some of the products and services made available by TD Ameritrade through the program may benefit HC but may not benefit its client accounts. These products or services may assist HC in managing and administering client accounts, including accounts not maintained at TD Ameritrade. Other services made available by TD Ameritrade are intended to help HC manage and further develop its business enterprise. The benefits received by HC or its personnel through participation in the program do not depend on the amount of brokerage transactions directed to TD Ameritrade. As part of its fiduciary duties to clients, the firm endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the receipt of economic benefits by HC or its related persons in and of itself creates a potential conflict of interest and may indirectly influence the HC's choice of TD Ameritrade for custody and brokerage services.

As disclosed in Item 12 above, HC participates in TD Ameritrade's institutional customer program and HC may recommend TD Ameritrade to clients for custody and brokerage services. There is no direct link between HC's participation in the program and the investment advice we give to clients, although HC receives economic benefits through its participation in the program 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 HC 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 HC by third party vendors. TD Ameritrade may also have paid for business consulting and professional services received by HC's related persons. Some of the products and services made available by TD Ameritrade through the program may benefit HC but may not benefit its client accounts. These products or services may assist HC in managing and administering client accounts, including accounts not maintained at TD Ameritrade. Other services made available by TD Ameritrade are intended to help HC manage and further develop its business enterprise. The benefits received by HC or its personnel through participation in the program do not depend on the amount of brokerage transactions directed to TD Ameritrade. As part of its fiduciary duties to clients, HC endeavors at all times to put the interests of its clients

first. Clients should be aware, however, that the receipt of economic benefits by HC in and of itself creates a potential conflict of interest and may indirectly influence our choice of TD Ameritrade for custody and brokerage services.

HC may receive client referrals from TD Ameritrade through its participation in TD Ameritrade's AdvisorDirect program. In addition to meeting the minimum eligibility criteria for participation in AdvisorDirect, HC 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, HC 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 HC and has no responsibility for HC's management of client portfolios or HC's other advice or services. HC 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 HC ("Solicitation Fee"). HC will also pay TD Ameritrade the Solicitation Fee on any advisory fees received by HC 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 HC on the recommendation of such referred client. HC 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.

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

Schwab Advisor Services (formerly called Schwab Institutional) is Schwab's business serving independent investment advisory firms like us. They provide us and our clients with access to its institutional brokerage – trading, custody, reporting and related services – many of which are not

typically available to Schwab retail customers. Schwab also makes available various support services. Some of those services help us manage or administer our clients' accounts while others help us manage and grow our business. Schwab's support services are generally available on an unsolicited basis (we don't have to request them) and at no charge to us as long as we keep a total of at least \$10 million of our clients' assets in accounts at Schwab. If we have less than \$10 million in client assets at Schwab, it may charge us quarterly service fees of \$1,200. Here is a more detailed description of Schwab's support services:

Schwab's institutional brokerage services include access to a broad range of investment products, execution of securities transactions, and custody of client assets. The investment products available through Schwab include some to which we might not otherwise have access or that would require a significantly higher minimum initial investment by our clients. Schwab's services described in this paragraph generally benefit you and your account.

Services that May Not Directly Benefit You. Schwab also makes available to us other products and services that benefit us but may not directly benefit you or your account. These products and services assist us in managing and administering our clients' accounts. They include investment research, both Schwab's own and that of third parties. We may use this research to service all or some substantial number of our clients' accounts, including accounts not maintained at Schwab. In addition to investment research, Schwab also makes available software and other technology that:

- provide access to client account data (such as duplicate trade confirmations and account statements);
- facilitate trade execution and allocate aggregated trade orders for multiple client accounts;
- provide pricing and other market data;
- facilitate payment of our fees from our clients' accounts; and
- assist with back-office functions, recordkeeping and client reporting.

Services that Generally Benefit Only Us. Schwab also offers other services intended to help us manage and further develop our business enterprise. These services include:

- Educational conferences and events;
- Technology, compliance, legal, and business consulting;
- Publications and conferences on practice management and business succession; and
- Access to employee benefits providers, human capital consultants and insurance providers.

Schwab may provide some of these services itself. In other cases, it will arrange for third-party vendors to provide the services to us. Schwab may also discount or waive its fees for some of

these services or pay all or a part of a third party's fees. Schwab may also provide us with other benefits such as occasional business entertainment of our personnel.

### **Our Interest in Schwab's and TD Ameritrade's Services**

The availability of these services from Schwab and TD Ameritrade benefits us because we do not have to produce or purchase them. We don't have to pay for Schwab or TD Ameritrade services so long as we keep a defined dollar minimum in accounts at Schwab. The minimum may give us an incentive to request that you maintain your account with Schwab or TD Ameritrade based on our interest in receiving services that benefit our business rather than based on your interest in receiving the best value in custody services and the most favorable execution of your transactions. This is a potential conflict of interest. We believe, however, that our selection of Schwab and TD Ameritrade as custodian is in the best interests of our clients.

As mentioned above, HC's parent company is Focus Financial Partners, LLC ("Focus"). From time to time, Focus holds partnership meetings and other industry best-practices conferences, which typically include HC, other Focus firms, and external attendees. Those meetings are first and foremost intended to provide training or education to personnel of Focus firms, including HC. However, the meetings do provide sponsorship opportunities for asset managers, asset custodians, vendors and other third-party service providers. Sponsorship fees allow these companies to advertise their products and services to Focus firms, including HC. Although the participation of Focus firm personnel in these meetings is not preconditioned on the achievement of a sales target for any conference sponsor, this practice could nonetheless be deemed a conflict as the marketing and education activities conducted, and the access granted, at such meetings and conferences could cause HC to focus on those conference sponsors in the course of its duties. Focus attempts to mitigate any such conflict by allocating the sponsorship fees only to defraying the cost of the meeting or future meetings and not serve as revenue for itself or any affiliate, including HC. Conference sponsorship fees are not dependent on assets placed with any specific provider or revenue generated by such asset placement.

The following entities have provided conference sponsorship to Focus in the last year:

- ) Fidelity Brokerage Services
- ) J.P. Morgan Asset Management
- ) Charles G. Schwab & Co.
- ) Lord Abbett & Co.

## **Item 15 – Custody**

HC does not take possession of client money or securities. However, because HC generally has the authority to deduct its advisory fees directly from client accounts as agreed in client contracts, it is deemed to have custody of client assets per SEC rules and regulations. TD Ameritrade, Charles Schwab and Millennium Trust Company serve as custodians for client accounts and maintain actual custody of client assets.

Clients receive at least quarterly statements from the broker dealer, bank or other qualified custodian that holds and maintains client's investment assets. HC urges you to carefully review such statements and compare such official custodial records to the account statements that we may provide to you. Our statements may vary slightly from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

## **Item 16 – Investment Discretion**

HC will determine which securities to purchase and in what amount in discretionary accounts under its direct management. Third-party managers or sub-advisers will determine which securities to purchase and in what amount in client accounts that they manage. Any restrictions or limitations to HC's discretionary authority as defined by a client are established on a client-by-client basis.

### **Queue Process for Third-Party Managers**

HC may introduce investment opportunities onto its investment platform with unique funding processes. From time to time, the volume of client interest in these investments in aggregate exceeds the fund's present capacity, making it necessary to develop a queue to track the order in which client accounts will be funded in the investment over time. In order to establish a fair and equitable process for determining priority in the investment queue, HC employs a series of internal documented procedures which outline how client priority in these queues is determined.

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

The firm will not vote proxy statements on behalf of advisory clients. It is each client's responsibility to vote proxies and participate in corporate actions. Clients will receive applicable proxies directly from the issuer of securities held in clients' investment portfolios.

## **Item 18 – Financial Information**

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about HC's financial condition. HC has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.