



**HoyleCohen** | *Shift your Thinking™*  
A FOCUS FINANCIAL PARTNER

## ADV Part 2 – Disclosure Brochure

June 1, 2017

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 an identifying number, known as a CRD number. The CRD number for HC is 141125.

**HoyleCohen, LLC**

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## 2. Material Changes

Effective June 1, 2017, HC acquired the business of Libbie Agran Financial Services & Seminars (“LAFS”). This Brochure has been updated to reflect changes related to this transaction.

We will ensure that HC clients receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business’ fiscal year. We will further provide HC clients with a new Brochure as necessary based on changes or new information at any time.

Clients may request a copy of this Brochure at any time by contacting Mark Delfino, Chief Compliance Officer, or Heather England 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 (“IARs”) of HC.

### 3. Table of Contents

2. Material Changes .....	ii
3. Table of Contents .....	iii
4. Advisory Business.....	1
5. Fees and Compensation.....	3
6. Performance-Based Fees and Side-By-Side Management .....	5
7. Types of clients .....	5
8. Methods of Analysis, Investment Strategies and Risk of Loss.....	5
9. Disciplinary Information.....	9
10. Other Financial Industry Activities and Affiliations .....	9
11. Code of Ethics.....	10
12. Brokerage Practices .....	11
13. Review of Accounts.....	12
14. Client Referrals and Other Compensation .....	13
15. Custody .....	14
16. Investment Discretion.....	15
17. Voting Client Securities .....	16
18. Financial Information .....	16

## 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.

At the start of business on June 1, 2017, HC managed \$1,629,954,569 in assets on a discretionary basis within our standard investment platform. In addition, we had \$92,315,266 in assets either in transition or outside of our standard platform.

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

HC provides advisory and investment management services on a discretionary basis that involves individual securities, mutual funds and ETFs which have been recommended and approved by the HC Investment Committee. We allow non-discretionary accounts and client imposed restrictions on certain investments in certain limited or special circumstances. In addition, we conduct due diligence on and recommend third-party managers and/or private investment strategies and may facilitate investment into such investment programs. A client's investment with a third-party manager is 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. In the case of certain private investment funds and other supplemental investment programs, HC makes recommendations to the client, but it is ultimately the client's decision whether or not to invest.

HC allocates a client's investment assets among various asset classes and securities, in accordance with the client's specific goals, time horizon and investment constraints. HC uses software to evaluate portfolio designs. HC works with new clients to develop a transition plan for moving from a client's existing portfolio to the portfolio recommended by us. Each client's portfolio is continuously reviewed and rebalanced or adjusted when we deem appropriate. HC interacts with each client regularly via meetings, emails and other means to ensure HC is investing and advising in accordance with each client's needs and objectives.

### **Wealth & Beyond Program® Services**

HC helps clients understand their total wealth picture and life plan through our Wealth & Beyond Program® services. HC assists in reviewing a client's total net worth and total investment assets regardless of how much HC is managing. This may include these services based on need, such as:

- income tax and estate tax planning
- retirement and college financial planning

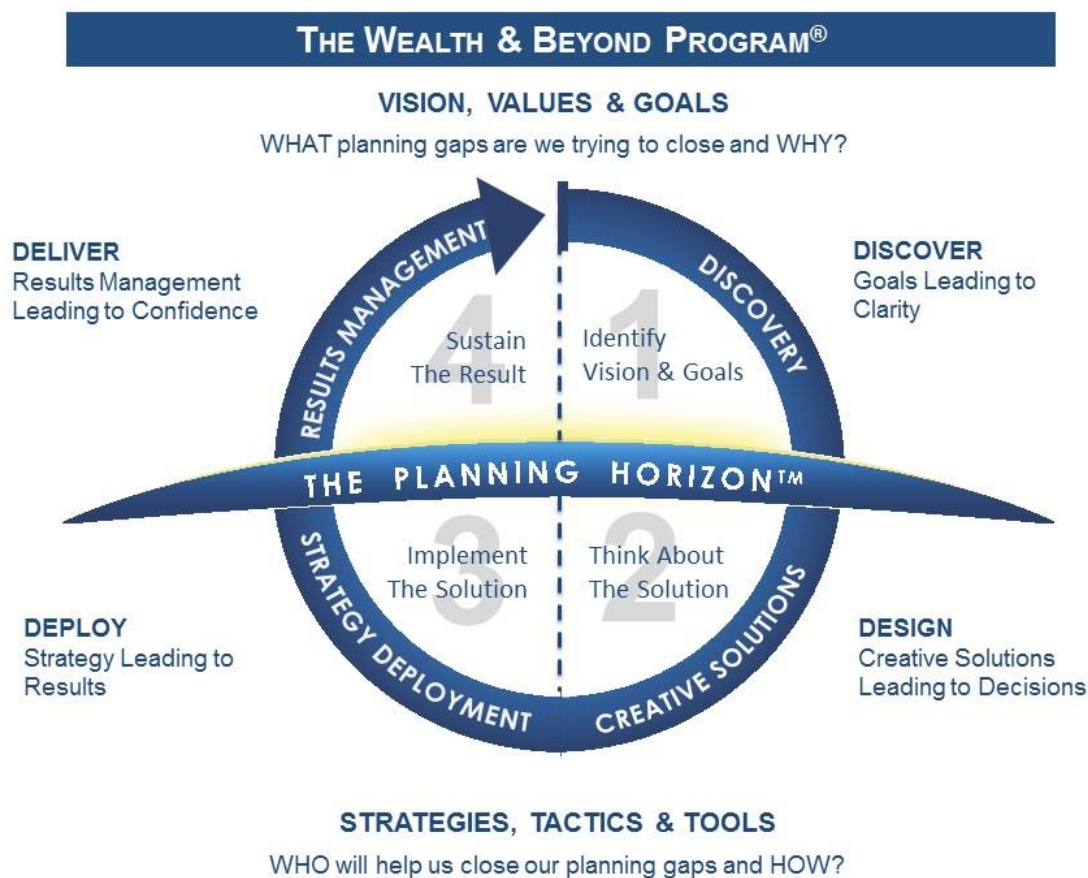
- family legacy planning
- personal cash flow analysis
- risk and insurance analysis
- charitable intent and capacity
- design of retirement plans and trusts
- business interest/sale or real estate sale/rental analysis
- special investment program due diligence and monitoring
- coordination and oversight of family wealth plan execution ('loose ends')

As part of the Wealth & Beyond Program® services, HC clients have access to a secure client portal that shows the value of investment assets and net worth as well as provides an electronic vault for valuable wealth-related documents like wills, trusts, tax returns, insurance documents and financial plans.

For new clients, HC offers an opportunity to engage in an in-depth planning process (called 'Discovery') where a written financial plan and implementation roadmap are prepared and presented prior to implementation. These initial planning services are typically performed for a separate planning fee that is determined based on the scope and work required. Subsequent Wealth & Beyond Program® services, including access to the HC client portal, are then included in HC's ongoing advisory fee. Projects beyond routine Wealth & Beyond Program® services – e.g., multi-family meetings, written/video Family Financial Philosophies – may be performed as needed for a separate fee as agreed in advance by HC and the client.

Subsequent implementation of HC's recommendations is left to a client's discretion. HC often helps oversee and assist with implementation, but cannot and does not replace or represent the client in most aspects beyond discretionary investment management. Other professionals representing a client – attorneys, accountants, insurance agents, other advisors – may need to be involved. We suggest clients work closely with these professionals to implement aspects of their plans. Clients can talk to us if they need help finding trained professionals to assist them.

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



Over 90% of HC's revenue are attributable to billings for continuous advisory and investment management services with less than 10% attributable to one-time advisory services including, but not limited to initial Discovery planning or special program projects.

## 5. Fees and Compensation

### Fees for Advisory and Investment Management Services

Prior to providing advisory and investment management services, we agree on the exact fee with each client. Most clients pay us annual fees based on assets under management ("AUM"). Some clients pay us an annual flat fee. These fees include the ongoing Wealth & Beyond Program® services described earlier as they pertain to each client's situation. Fees for clients based on AUM are generally determined according to the following fee schedule. We reserve the right to charge a minimum fee, reduced fee or no fee.

<u>Total Assets Under Management</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%

\*Includes 0.50% per year for ongoing Wealth & Beyond Program® advisory services

Our standard practice is to charge clients on a quarterly basis, in advance, although some clients may be charged on a monthly basis due to prior agreements. When calculating fees on accounts based on a percentage of total AUM, we use the value of the assets on the last day of the prior period. The quarterly percentage is one fourth of the annual percentage and is charged in advance. The monthly percentage is one twelfth of the annual percentage and is charged in advance.

We have processes for checking and validating the accuracy of our fees, but each client is responsible for verifying the accuracy of the fee calculation and we strongly recommend that clients review statements from their designated custodians. 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.

### **Fees for Discovery Planning or Special Projects**

We strongly prefer new clients engage in an initial, in depth Wealth & Beyond Discovery planning process. Discovery fees will be charged as a fixed fee, typically ranging from \$2,500 - \$10,000 depending on the nature and complexity of the circumstances and work involved. Up to 100% of this fee may be due upon signing an agreement with HC with any balance due upon presentation of the plan or project completion. As described earlier, existing clients may need services outside the scope of our ongoing Wealth & Beyond Program® services. If so, clients will be charged a fixed fee. In all instances, fees and the timing of payment are agreed to by the client in advance. If HC is managing investment assets on a discretionary basis at the same time, clients may also be subject to HC's Advisory & Investment Management fee and non-HC costs related to underlying investments or custodians as described in this Brochure.

HC or a client may terminate an 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 advance written notice to the client, subject to the clients' right to terminate HC's services at any time by providing written notice.

## 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 sub-advisers selected by HC may charge performance-based fees; however, HC does not share in any such performance-based fees.

## 7. Types of clients

HC provides advisory services mostly to individuals, pension & profit-sharing plans and charitable organizations. We treat clients as if they and future generations will be clients for life. We have decades of experience and our clients span a broad range of ages, wealth and complexity. As a result, we understand each client's issues and how these change thru various life stages. We require a minimum of \$500,000 in aggregate investment for new clients and prefer clients who meet an Accredited Investor standard based on net worth or income. We reserve the right to waive our minimums or charge a minimum annual fee for accounts that fall below this amount.

## 8. Methods of Analysis, Investment Strategies and Risk of Loss

### Investment Approach

Our approach combines a blend of investment strategies into a proprietary investment platform we call **CorePlus**. All investments we make or recommend to HC clients have been assessed, reviewed and approved by our Investment Committee ("IC"). The HC IC includes HC IARs who serve clients and is led by staff who spend most of their time on investment-related research and recommendations. Our CorePlus investment platform consists of various building blocks that HC IARs can use to create portfolios for each client they serve. The result is a customized portfolio that each adviser believes best positions each client for the financial security and wealth accumulation needed to meet his or her objectives over both the short and long term.



Our IC staff studies various sources of research to estimate future asset class returns and to identify specific asset classes and securities we believe will perform as needed from a risk/return perspective over a multi-year planning horizon. As conditions change, we may allocate more to asset classes believed to be undervalued and less to rapidly appreciating asset classes we feel have become overvalued. Adjustments will also be made if allocations become misaligned relative to client risk or policy.

We require IC approval in order to add investments to our platform and subsequently utilize them in client portfolios. We select individual investments based on a number of factors, including fundamental and valuation analyses. Investments are also analyzed as to their tax consequences and may be allocated to taxable or tax-deferred accounts in an effort to minimize overall tax impacts. We use a host of tools and services, including Morningstar for mutual fund analysis and Bloomberg services for individual securities. We also conduct diligence on special strategies executed by third-party managers or in private fund formats. Initial due diligence for these types of investments typically consumes hundreds of hours and many months of our time.

HC builds portfolios for each client based on a set of risk/return assumptions and asset allocation parameters. The end goal is to create portfolios for each client designed to optimize the likelihood of the desired outcomes based on that client's objectives and tolerance for risk.

The 'Core' portion of HC's CorePlus investment platform consists of mutual funds, ETFs and/or individual securities. The 'Plus' aspect includes a variety of more specialized investment strategies and programs. Plus strategies are only recommended based on a strict suitability criteria and are used when we believe more traditional strategies may not achieve the desired outcome. They include but are not limited to strategies designed to: 1) generate consistent income in relatively low interest rate environments, 2) diversify into real estate or out of concentrated positions, 3) reduce high federal and state tax burdens. Strategies may take advantage of periodic dislocations in financial markets or provide access to income and/or growth opportunities not readily available in publicly traded markets. Strategies may also include the use of structured products, options, and separate account managers for suitable clients in an effort to better protect principal, secure gains and/or generate income.

Core components of a client's portfolio typically represent the majority – and in some cases, all – of a client's investment assets. No client is required to utilize Plus strategies, but many clients take advantage of them, in many cases utilizing multiple Plus strategies. We believe our CorePlus platform provides many ways for HC advisers to meet each client's needs.

## **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, i.e., the risk that the value of securities (mutual funds, ETFs, individual stocks/bonds), when sold or otherwise disposed of, may be less than the price paid. Even when the value of securities sold is greater than the price paid, there is the risk that appreciation will be less than inflation, i.e., that the purchasing power of the proceeds may be less than the purchasing power of the original investment. While HC attempts to mitigate these risks a number of ways, they can never be eliminated.

One approach to mitigate risk is through diversification, however, there are times when the price movements of asset classes become more correlated, i.e., moving the same direction. For example, most all equity securities lost significant value during the 2008-09 market declines as did the value of many types of bonds. We created our CorePlus platform largely to have more ways to create a more stable return and to diversify our clients' risks beyond that which traditional stock and bond investments alone are able to do.

### **Risks associated with traditional equity and debt investments**

Equity securities may include large, medium and small capitalization stocks. They may represent stocks of companies with headquarters located in the United States (often called 'domestic' equities) or in other geographies (often called 'international' or 'emerging market' equities). Equity investments often fluctuate significantly in value due to a variety of factors that may impact either individual issuers, larger segments of the markets as a whole, or both.

Debt investments can also fluctuate significantly in value due to changes in interest rates or events impacting the underlying issuers of the debt. Debt securities are often classified by agencies who rate the quality of these securities, using terms such as 'investment grade'. While debt investments are typically not considered to be as volatile and risky as equity securities, this generalization is not accurate for all types of debt. Certain debt investments (e.g., 'high yield' bonds) have been as volatile as some types of equity securities. In addition, while some debt securities may have lower risk of principal loss, low yields may present the risk of loss of purchasing power relative to the expected rate of inflation.

International investments, be they in stocks or bonds, may also be subject to fluctuations in currency valuations relative to the U.S. dollar.

### **Risks associated with other investments**

HC may recommend investments in direct real estate, private lending funds, Master Limited Partnerships (MLPs) and other private funds or special account programs. Many of these

strategies may concentrate their investments in specific industry sectors. As a result, clients who invest in them may be exposed to risks related to the health of the private lending, real estate and energy industries including: credit/default risk, prepayment risk, consumer creditworthiness, possible illiquidity, as well as adverse economic developments in these and related sectors. Private funds may subject investors to liquidity and other risks based on the terms of the fund.

HoyleCohen's Structured Notes Program provides a way for HC to offer clients risk/return characteristics not broadly available through more conventional investment strategies. Structured Notes ("SNs") are senior unsecured bank debt. 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. HC assesses the creditworthiness of each potential issuer of SNs then works directly with major banks to issue SNs designed to our specifications. Every SN will not be suitable for all investors. Each SN exhibits an entirely different set of characteristics, risks, and rewards. It is possible individual clients may not participate in any or all SNs HC researches or offers. Advisers will determine which SNs, 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 SN. While it is the intent of HC to hold most SNs until maturity, the ability to buy or sell allows HC to lock in gains or mitigate additional risks prior to maturity. Each SN 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.

HC may also recommend private funds to its clients based on suitability. These funds often offer the potential for diversification and attractive 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. Each private fund exhibits its own set of characteristics and risks, 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. Advisers will determine which private funds, if any, are suitable based on client's risk profile and investment needs.

Transparency is one key criterion in selecting these strategies and the managers implementing them. HC requires that managers of private funds and other niche strategies are as transparent as possible as to underlying holdings and risks. HC makes available to clients many of these details as well as direct access to the managers themselves. Anyone interested in learning more about our strategies and their risks should request additional information from us.

Allocations to individual Plus strategies vary by client suitability and circumstance. While no single strategy might represent a significant portion of a client's total investment assets, Plus strategies can represent a meaningful portion of a client's total portfolio in aggregate. As a result, HC has strict guidelines and procedures for determining and monitoring allocations to these strategies as well as for assessing a host of risks (e.g., sector, manager, liquidity) on an ongoing basis.

## **9. Disciplinary Information**

Not applicable. IARs 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. We have no material legal or disciplinary events reported by HC IARs and hold the integrity of HC's management with high regard.

## **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).

## 11. Code of Ethics

HC has adopted a written Code of Ethics which incorporates an insider trading policy. The Code of Ethics requires that we must:

- *Always place the interests of clients first,*
- Comply with federal securities laws,
- Keep information confidential,
- Avoid taking inappropriate advantage of the Adviser’s position,
- Conduct all personal securities transactions in compliance with our Code of Ethics and Policies & Procedures Manual,
- Report any violations of the Code of Ethics promptly to the Chief Compliance Officer,
- Seek advice from the Chief Compliance Officer when in doubt about the propriety of any action or situation.

Managing Directors, employees and IARs of HC (“Supervised Persons” or “SPs”) may buy and sell securities and other investment products that may also be recommended to its clients. SPs may

undertake personal investment activities in direct opposition to recommendations made to clients if deemed appropriate and suitable for them. Preclearance is required on individual security transactions. Preclearance is not required on mutual fund or ETF transactions. All SPs must provide a list of all security holdings. In addition, all SPs must provide a list of all personal security transactions no less than quarterly.

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.

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 San Diego office address.

## **12. Brokerage Practices**

HC has established relationships with Charles Schwab and TD Ameritrade. HC has also established a relationship with Millenium Trust Company primarily, but not exclusively for investments in private funds and other non-standard assets. 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. For additional disclosures as requested by these custodians, refer to Item 14 of this Brochure.

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 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. HC will place all client trades with the custodians selected. HC has evaluated these custodians and believes that each 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 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 be caused by HC. 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 who invest in strategies managed by a sub-adviser are requested to review the disclosure document of that sub-adviser for complete information on the brokerage practices of that firm.

## **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 to 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.

IARs review client accounts as frequently as needed but also on a monthly or quarterly basis as part of routine review processes. Accounts for clients are rebalanced as necessary to bring the asset allocation back in line with recommended asset allocations and/or the client's investment

objectives or policy statement. IARs communicate with clients regularly and when client circumstances change to ensure client accounts are being managed consistent with client objectives.

IARs can only invest HC clients in investments that have been approved by the HC Investment Committee (“HC IC”). The HC IC is responsible for reviewing, monitoring and making changes to investments on the HC investment platform. The HC IC may also recommend target allocations and/or specific strategies for certain objectives. The HC IC meets regularly to discuss and to make these decisions and recommendations. Each IAR assesses the HC IC’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 implementation.

## **Reports**

In addition to the statements and confirmations of transactions that investment management clients receive from their account custodian, HC prepares and sends each client a holdings report on a monthly or quarterly basis that provides the market value of assets under management, HC advisory fees, and investment performance. Depending on client preference, clients either meet with their IARs at least annually or review reports and other information relevant to each’s circumstances via phone, email or regular mail. Unless specified otherwise, information related to planning or other issues addressed as part of our ongoing Wealth & Beyond Program® Services is typically addressed as part of this review process. Clients also receive reports showing annual performance and asset allocations at least once each year. Clients with explicit Investment Policy Statements are asked to review these statements annually. HC also provides each client an annual privacy notice.

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

### **Client Referrals**

HC does not have any active arrangements whereby any entity or individual solicits or refers clients in exchange for financial consideration. HC received client referrals from TD Ameritrade (“TDA”) in the past as a result of TDA’s AdvisorDirect program (“referral program”). TDA has never supervised HC nor has TDA ever had any responsibility for HC’s portfolio management, advice or services. HC no longer participates in the referral program for purposes of receiving client referrals but is obligated to pay TDA an ongoing fee (usually a percentage of HC’s advisory fee not to exceed 25%) for each successful client relationship as a result of past referrals. TDA’s referral fee does not affect the fees paid by each qualifying client to HC. In all instances, referred clients were and are subject to the same advisory agreements, fees and terms of services as other HC clients.



## **Other Valuable Services**

As disclosed under Item 12 above, HC participates in Charles Schwab's Advisor Services platform and TD Ameritrade's Institutional program and recommends Schwab or TD Ameritrade to clients for custody and brokerage services. Through these relationships, HC receives valuable services and benefits at no cost to us. 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, facilitate trade execution, 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. HC does not receive any direct financial consideration from these custodians, but the availability of these services benefits us because we do not have to produce or purchase them. This is common practice in the advisory industry but represents a potential conflict of interest. As a fiduciary, we are obligated to always put our clients' interests ahead of our own, and we believe our selection of Schwab and TD Ameritrade as custodians is in the best interests of our clients.

## **Other Disclosures**

HC's parent company is Focus Financial Partners, LLC ("Focus"). From time to time, Focus holds partnership meetings and conferences, which typically include HC, other Focus firms, and external attendees. Those meetings are intended to provide training or education to personnel of Focus firms, including HC. However, the meetings may 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 Schwab, Lord Abbett.

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

## **16. Investment Discretion**

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

### **Individual Security Trade Aggregation**

Procedures have been developed for individual securities with the intention of providing reasonable assurance that a clear and consistent methodology is applied to the aggregation and allocation of investment opportunities and transactions. Once it is determined that a particular security should be purchased or sold for particular accounts, the number of shares to be purchased or sold for each account is determined. In determining the size of a client's order, consideration is given to factors such as, but not limited to, the size of the account, any legal or client-imposed investment restrictions, the cash position of the account and the role of the investment in the client's asset allocation strategy.

If HC decides to place a block trade of 10,000 shares or greater to purchase or sell a particular security in client accounts, HC personnel are prohibited from purchasing or selling that security during the one-week period prior to the client trade date(s). If HC personnel decide to purchase or sell the same security, they must place their trades through HC. Orders for HC personnel are aggregated with those for clients, but client orders are filled first.

If an aggregated order is filled in its entirety, it will be allocated among clients and HC personnel in accordance with the allocation statement; in the unusual circumstance where an order is partially filled, it will be allocated based on a rotational methodology using client names. HC personnel do not participate in such orders unless and until all client needs are satisfied.

### **Queue Process for Private Funds or Third-Party Managers**

From time to time, the aggregate volume of client interest in a given investment may exceed the amount an investment manager is able to accept and invest, 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.

## **17. Voting Client Securities**

HC's proxy policy is client-specific. HC does not vote proxy statements on behalf of advisory clients served by HC's San Diego and Sacramento offices. Where this is the case, 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. HC's Santa Monica office will vote proxy statements on behalf of clients who choose to do so. In these instances, HC's Santa Monica office receives proxy materials from Schwab and other brokerage firms for securities held in our client's accounts. Clients may specify to receive duplicate informational copies of proxy materials. Proxy voting ballots represent each security in aggregate. The HC Investment Committee has a process for reviewing proxy materials and deciding how to vote on each issue or initiative. Any IC member who has a direct or indirect interest in the issue presented for voting must recuse himself or herself from voting on that particular issue. Each year, we create a spreadsheet indicating each security for which votes were cast, the number of shares voted, and how the ballot was cast for each issue. Clients who wish to vote their proxies in a specific way may do so by changing the voting authorization so that his or her shares are no longer included in the aggregated vote. If we do not have the authority to vote client securities, clients will receive their proxies or other solicitations directly from their custodians or transfer agents. A full copy of the Adviser's Proxy Voting Policy and voting record is available upon request. Clients may contact us with questions about a particular solicitation or with questions about how we voted their securities.

## **18. Financial Information**

IARs 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.