

# **BBVA Wealth Solutions, Inc.**

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## **Firm Brochure FORM ADV, Part 2A**

**June 14, 2013**

Form ADV, Part 2A, the “Disclosure Brochure” as required by the Investment Advisers Act of 1940, is a very important document between Clients and BBVA Wealth Solutions, Inc. (“BWS”). This Disclosure Brochure provides information about our qualifications and business practices.

***This Disclosure Brochure provides information about the qualifications and business practices of BBVA Wealth Solutions, Inc. If you have any questions about the contents of this Disclosure Brochure, please contact BBVA Wealth Solutions, Inc. by phone at 713-552-9277 or 904-399-0662. The information in this Disclosure Brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC) or by any State Securities Authority.***

***Additional information about BBVA Wealth Solutions, Inc. also is available at the SEC’s website [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) (click on the link, select “investment adviser firm” and type in our firm name). Results will provide you both Part 1 and 2 of our Form ADV.***

BWS is a registered investment adviser with the Securities and Exchange Commission. BWS’ registration as an investment adviser does not imply any level of skill or training. The oral and written communications provided to you, including this Disclosure Brochure, is information you use to evaluate BWS (and other advisers) which are factors in your decision to hire BWS or to continue to maintain a mutually beneficial relationship.

## **Material Changes**

### **What is in this Current Brochure**

This June 14, 2013 version of the BBVA Wealth Solutions, Inc.'s Part 2A Disclosure Program Brochure (the "June 2013 Updated Disclosure Brochure") updates, amends and replaces the Part 2A Disclosure Brochure dated March 28, 2013 (the "March 2013 Disclosure Brochure")

### **Summary of Material Changes to March 2013 Disclosure Brochure**

We have summarized below the material changes to our March 2013 Disclosure Brochure that appear in this June 2013 Updated Disclosure Brochure. The summary appearing below describes only changes to our March 2013 Disclosure Brochures that are material changes.

- We have revised the cover page to reflect a change of our business address in Houston, Texas from 4161 FM 1960 West, Houston, Texas 77068 to 2200 Post Oak Boulevard, Houston, Texas, 77056.
- We have noted that our affiliate broker-dealer, BBVA Compass Investment Solutions, Inc. and merged with and into another affiliate broker-dealer, BBVA Securities Inc. The surviving entity will be BBVA Securities Inc. and BBVA Compass Investment Solutions will operate as a division of BBVA Securities Inc.
- We have updated the information concerning the total assets we manage under all of our programs on page 10 under "The Assets We Manage."
- We have updated the indirect ownership of our company to reflect the merger of two bank holding companies: BBVA USA Bancshares, Inc., a Texas bank holding company and BBVA Compass Bancshares, Inc., an Alabama bank holding company. We remain a wholly-owned direct subsidiary of Compass Bank, which is now the lead bank subsidiary of BBVA Compass Bancshares, Inc., a Texas bank holding company.

The above summary does not describe any changes to the March 2013 Program Brochure that appear in this June 2013 Updated Program Brochure unless those changes were "material changes."

### **How to Obtain a Current Brochure**

If you would like another copy of this Disclosure Brochure, please download it from the SEC Website as indicated above or you may contact us by telephone at 713-552-9277 or 904-399-0662 or by emailing us at [bws@bbvawealthsolutions.com](mailto:bws@bbvawealthsolutions.com).

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## Advisory Business

### **The Advisory Services We Offer**

BBVA Wealth Solutions, Inc. ("BWS," and sometimes referred to herein as "us" or "we" or "our" as appropriate) renders investment advisory services for institutional and certain individual clients for taxable and tax exempt accounts, and provides fee-based financial planning and advisory services to high net worth clients comprised primarily of business owners, corporate executives, and professionals.

**We do not offer tax or legal advisory services. You should seek outside counsel for these services.**

Our services include the following:

Investment Management – We provide discretionary investment management services through access to "Separately Managed Accounts," a separately managed portfolio strategy developed by our affiliate, St. Johns Investment Management Company ("St. Johns"), which was merged into us on October 18, 2010.

*Tailored Relationships.* We offer portfolios that can be customized in several ways to suit your needs and meet your financial goals. We and our client develop a target asset allocation based on each client's individual income needs, risk tolerance, and income tax situation. We evaluate existing investments taking into account their suitability for client's stated objectives and their economic and tax characteristics. Our clients are permitted to impose reasonable restrictions on securities, industries and sectors by providing us with written instructions at the time their advisory accounts are opened or at any time thereafter. We may reject the imposition of restrictions to the extent the restrictions are inconsistent with the types of portfolios or services we provide.

*Investment Discretion.* Generally, we exercise full investment discretion over our clients' investment management accounts. However, in some cases we do not exercise investment discretion and instead provide investment recommendations. If we do not exercise investment discretion, either you or a third party designated by you have full responsibility for investment decisions. If a client has special needs and/or restrictions that require a portion of his portfolio to be held outside of a

Separately Managed Account with us, a separate non-discretionary account will be opened to house those funds. Such funds will be managed in line with the special needs and/or restrictions applicable to the client's account and the account will incur an advisory fee.

*Separately Managed Accounts.* We also offer our clients Separately Managed Accounts. If you participate in a separately managed account program, we will assist you in constructing a portfolio comprised of a combination of equity and fixed-income securities, equity exchange-traded funds, and money market mutual funds (or other short-term investment vehicles) that is designed to assist you in pursuing your identified financial goals and is consistent with your risk tolerance.

The equity component of our Separately Managed Account portfolios will be comprised, in whole or in part, of our Core Equity Model. Under the Core Equity Model, the client's portfolio is invested predominantly in a portfolio of equity securities selected by us from time to time for our "Core Model." The Core Model is a long-term, large-cap equity strategy model managed to pursue long-term growth through a stock specific portfolio subject to sector weighing constraints. In addition to the Core Model large-cap equities, in most cases the client's portfolio will contain ETFs invested in other equity asset classifications (such as small-cap equities, mid-cap equities and international equities). In some cases, the "non-cash" portion of a client's portfolio will also contain mutual fund investments.

In the case of our Separately Managed Accounts that invest, in whole or in part, in fixed-income securities, we typically purchase individual fixed income securities rather than ETFs or mutual funds.

Our Separately Managed Accounts are available to:

- former clients of St. Johns whose separately managed accounts with St. Johns were transferred to us when St. Johns merged into BWS (Legacy St. Johns Investment Management Accounts); and
- clients who establish a Separately Managed Account Investment Management Agreement with us.

Our Core Equity Model, as well as certain other portfolios, also are available to qualifying clients through the SmartPath Managers Portfolios, a wrap fee program sponsored by us, for a single wrap fee that covers our investment management fees and applicable custodian's fees and trading expenses (collectively, the "SmartPath

Program”). As used in this Disclosure Brochure, “Separately Managed Accounts” refers to separately managed accounts established with us outside the SmartPath Program.

*Support to Our Parent Company.* We also provide investment support and periodic model portfolio recommendations to our parent company, Compass Bank. Compass Bank uses our recommendations in managing various investment management and trust accounts it maintains for its customers. The portfolio managers employed by Compass Bank to manage its client accounts determine whether to follow all, part or none of our recommendations.

**Financial Planning – Note:** Information is provided below regarding certain types of financial planning services provided by us prior to March 1, 2013. **As of March 1, 2013, we no longer provide financial planning services.**

*Retirement Planning*– We help the client identify cash flow needs into retirement, while identifying sources of income whether investment, pension, social security or others. As part of our retirement planning services, we may help the client (a) determine what rate of return is necessary to meet retirement income objectives, (b) evaluate how best to retire debt, how to develop a strategy to exercise company stock options, or other client-specific financial decisions, and (c) develop a strategy to take distributions from employer sponsored programs such as 401(k) or other deferred accounts to minimize income, estate, and penalty taxes.

*Estate Planning* – We provide the client advice concerning various aspects of estate planning in an effort to preserve and build wealth for multiple generations. As part of our estate planning services we may help the client (a) determine a practical gifting program based on resources and objectives of each client, (b) develop an insurance program that addresses various needs like risk management and estate tax payment, (c) identify additional tax savings tools including Family Limited Partnerships, Qualified Personal Residence Trusts, Grantor Retained Annuity Trusts and Irrevocable insurance/Investment Trusts, (d) identify an optimal distribution plan for qualified plans, IRAs and 401(k)s, and (e) charitable recommendations ranging from Charitable Remainder/Lead Trusts to Private Foundations.

*Business Succession Planning* – We help clients evaluate whether to keep the business in the family or sell to a third party. This may include assisting the client investigating tax efficient methods to sell the client’s business during his or her lifetime or at death (for example, Charitable Trusts and Foundations), recommending

strategies to avoid liquidating the business to pay estate taxes, and identifying potential incentive programs to attract and retain certain key people (for example, 401(k)s and pension plans, deferred compensation plans, phantom rights plans, and stock option plans).

Ordinarily, we do not provide ongoing financial planning services. Rather, after the first anniversary of the client's initial contract, we will work with the client to determine whether to renew the relationship and to update the client's financial plan. If the client and we decide to renew the relationship, we will ask the client to provide current financial information relevant to the planning areas agreed to. We evaluate the information obtained, and, based on that information, we will provide the client a written summary. If a client requests ongoing financial planning services, we seek to work with the client to negotiate the level and types of services to be provided and a suitable fee arrangement.

To minimize the potential for conflicts between planning and implementation, the financial plan prepared by us will contain recommendations as to general types of insurance and investment products that are appropriate to the clients' situation but will not recommend specific investment or insurance products.

SmartPath Program -- In addition to other investment advisory services, we act as sponsor of the SmartPath Diversified Portfolios and SmartPath Managers Portfolios, wrap programs which offer qualifying clients access to individualized investment management for a single wrap fee that covers our investment management fees and applicable custodian's fees and trading expenses (collectively, the "SmartPath Program").

The SmartPath Diversified Portfolios Program is comprised on the SmartPath Diversified Domestic Portfolios and the SmartPath Diversified International Portfolios. The SmartPath Diversified Domestic Portfolios offer qualifying U.S. clients access to identified model portfolios created and managed by us. The SmartPath Diversified International Portfolios offers qualifying clients who are not "U.S. persons" access to our SmartPath Diversified International Model Portfolios through a wrap fee program platform.

The SmartPath Managers Portfolios offer clients the opportunity to receive, through a wrap fee program platform, our "Core Equity" strategy (which is otherwise available to our clients through our Separately Managed Accounts as described above) and to the



SmartPath CIC Strategy Portfolios, which are model portfolios provided to us by our affiliate, Capital Investment Counsel, Inc. ("CIC").

We receive the wrap fees charged under the SmartPath Program, and pay certain costs and expenses out of those fees. In some instances, we or our affiliates receive compensation in addition to the wrap program fee. For detailed information regarding the SmartPath Program, you should review the separate Wrap Fee Program Brochures applicable to the SmartPath Program. You may obtain a copy of the SmartPath Program Brochures by calling us at 713-552-9277 or 904-399-0662 or by requesting a copy from one of our representatives. Unless otherwise noted, the remainder of this Disclosure Brochure relates only to our investment advisory programs and services other than the SmartPath Program.

Investment Consulting Services – We provide non-discretionary investment consulting services in connection with participation by clients in the Lockwood Managed Account Advisor program (the "Lockwood Program") and specifically in Lockwood Investment Strategies ("Lockwood LIS") and Lockwood Asset Allocation Portfolios ("Lockwood LAAP") for which Lockwood serves as portfolio manager as well as Separately Managed Accounts ("SMAs") offered through the Lockwood Program for one or more third party money managers, rather than Lockwood, act as portfolio manager. We also provide investment consulting services with limited discretion in connection with participation by clients in Lockwood AdvisorFlex Portfolios ("Lockwood AFP"). The Lockwood Program is sponsored by Lockwood, a registered investment adviser. Certain aspects of our clients' participation in the Lockwood Program will be coordinated through our registered broker-dealer affiliate, BBVA Securities Inc., through its BBVA Compass Investment Solutions division ("BCIS"), in its capacity as introducing broker for Pershing. Pershing will serve as custodian and clearing agent for accounts participating in the Lockwood Program (the "Lockwood Program Custodian"). Pershing is an affiliate of Lockwood and a registered broker-dealer. Lockwood and Pershing are not affiliated with us or BBVA Securities Inc.

We will designate from time to time an individual investment adviser representative ("Consultant") to assist each client in connection with the client's participation in the Lockwood Program designated by client. The Consultant also will be a registered representative of BBVA Securities Inc.

The Lockwood Program is briefly described below. You should refer to the Lockwood Advisors, Inc. Managed Account Advisor Account Wrap Fee Program Brochure (the "Lockwood Wrap Fee Program Brochure").

**SMAs offered through the Lockwood Program** -- This program provides the client the opportunity to obtain discretionary investment management from one or more money managers ("Portfolio Managers"). Lockwood performs Portfolio Manager research and due diligence and provides a list of approved Portfolio Managers and corresponding investment styles and strategies. We provide the client with information about the approved Portfolio Managers and assist the client in selecting a suitable Portfolio Manager or Portfolio Managers and investment style or styles from among Lockwood's approved list. The client is responsible for selecting the Portfolio Manager or Portfolio Managers and investment style or styles. We assist the client in completing the necessary Lockwood account paperwork, including establishing an account with the Lockwood Program Custodian if the client does not already have one. Lockwood reviews the client's financial information and investment objectives and reviews the suitability of the Portfolio Manager(s) and/or investment styles selected by the client. The client grants Lockwood the necessary limited powers to hire and fire Portfolio Manager(s) on the client's behalf. The selected Portfolio Manager(s) are responsible for day-to-day investment management decisions and the client grants to each selected Portfolio Manager, with respect to the assets of the client assigned to such Portfolio Manager, the discretion to invest and reinvest in securities, cash or other investments in accordance with the client's investment objectives.

Each Portfolio Manager, including Lockwood, sets its own account minimums for Lockwood Program accounts.

**Lockwood LIS** – Lockwood Investment Strategies is a discretionary, multi-discipline managed account product housed in a single portfolio. Five core models are available, as well as four additional models providing exposure to non-traditional asset classes. Lockwood serves as portfolio manager of Lockwood LIS and wrap free sponsor of the Lockwood Program. Lockwood, serving as portfolio manager, determines asset allocation and selects both third-party managers ("Sub-Advisers") and specific investment vehicles based on its proprietary approach to asset allocation, as well as its macroeconomic outlook and investment discipline. Lockwood selects Sub-Advisers and investment vehicles (such as exchange-traded funds or mutual funds) for each investment style. Each Sub-Adviser provides Lockwood with its model portfolio buy list and Lockwood, as "overlay" manager combines each of the model portfolios into one LIS portfolio designed to perform and act similar to a defined target benchmark. Suitability is determined at the client-account level according to model expectations. If a model does not perform

according to expectations, Lockwood may adjust the model. The client grants Lockwood full investment discretion to invest the client's program account assets in accordance with the client's identified investment objective.

The minimum amount to open a Lockwood LIS account is \$250,000 and the minimum for subsequent contributions is \$2,500.

**Lockwood LAAP** – Lockwood Asset Allocation Portfolios is a discretionary, multi-discipline managed account product contained in a single portfolio. Lockwood serves as portfolio manager and wrap fee sponsor of the Lockwood Program. Lockwood, serving as portfolio manager, determines the asset allocation strategy and selects investment vehicles for each investment style in the portfolio, based upon proprietary modeling strategies, economic outlook and investment research discipline. Five risk-based model portfolios are available, and are comprised of open and closed-end mutual funds, exchange-traded funds and other types of securities, as determined by Lockwood, in its sole discretion. Suitability is determined at the client-account level according to model expectations. If a model does not perform according to expectations, Lockwood may adjust the model. The client grants Lockwood full investment discretion to invest the client's program account assets in accordance with the client's identified investment objective.

The minimum amount to open a Lockwood LAAP account is \$50,000 and the minimum for subsequent contributions is \$1,000.

**Lockwood AFP** – Lockwood AFP is designed to give clients access to a diversified portfolio of investments in a single account based on each client's particular risk tolerance and investment objectives. Lockwood AFP offers 16 model portfolios calibrated to help clients achieve their investment goals throughout their financial life cycles through three investment strategies – Accumulation, Preservation and Income. Clients should refer to the Lockwood Wrap Fee Program Brochure for more information regarding the investment strategies available under Lockwood AFP. Lockwood, serving as portfolio manager for Lockwood AFP and wrap free sponsor of the Lockwood Program, initially determines the asset allocation and the various investment vehicles that may constitute the model portfolios of each strategy. Such investment vehicles may include open-end mutual funds, exchange-traded funds and exchange-traded notes. For each investment selection within a model portfolio, Lockwood identifies several options (consisting of primary investment selections ("Primary Selections") and alternate investment selections ("Alternate Selections")) from which the client and the Consultant may choose.

Certain asset classes may contain only Primary Selections and, in Lockwood's sole discretion, Alternate Selections will not be made available in those cases. Lockwood will implement certain updates and changes to the model portfolios ("Model Updates") throughout the life of the client's Lockwood AFP account, and the client grants Lockwood the limited discretion to implement such Model Updates. Model Updates may include replacing one investment vehicle with another and/or changing the asset allocation within a model portfolio. The client and the client's Consultant are responsible for reviewing all Model Updates. Lockwood, in its sole discretion, may rebalance a client's Lockwood AFP account in such instances as Lockwood determines is in the client's best interests. In addition, Lockwood reviews the drift of a client's Lockwood AFP account from the selected model portfolio on a regular basis and rebalances the account as the circumstances warrant. Lockwood also may adjust the underlying assets in a model portfolio from time to time to realign the model portfolio's performance with its expectations.

The Consultant will assist the client in selecting a model portfolio or model portfolios available in Lockwood AFP suitable for the client, and also will assist the client in determining whether the investment vehicles for the model portfolio recommended by Lockwood are suitable for the client. We will exercise limited discretion, if and as determined by us to be appropriate in light of the client's goals and financial circumstances known to us, to select the investment vehicles for the model portfolio on behalf of the client without obtaining the client's prior approval. If either we or the client select investment vehicles that are Alternate Selections, Lockwood will not be responsible for such selections. In all cases, however, the available investment vehicles will be restricted to the Primary Selections and the Alternate Selections identified by Lockwood.

The minimum amount to open a Lockwood AFP account is \$50,000 and the minimum for subsequent contributions is \$1,000.

We provide clients the following services in connection with the Lockwood Program:

- We work with the client to obtain from the client information concerning the client's financial situation and investment objectives, including by assisting the client in completing the "Investor Profile" questionnaire developed by Lockwood for the Lockwood Program (the "Lockwood Investor Profile"). We forward the information regarding client and client's investment objectives to Lockwood for Lockwood's review and analysis.

- We assist the client in designating a Lockwood product to pursue client's investment objectives and determine whether the Lockwood product designated by the client is suitable for the client.
- We assist the client in selecting a suitable Portfolio Manager or Portfolio Managers (in the case of SMAs offered through the Lockwood) or model portfolio or portfolios (in the case of the Lockwood LIS, Lockwood LAAP and Lockwood AFP).
- We coordinate with BBVA Securities Inc. to assist the client in completing the paperwork in order to open necessary accounts under the Lockwood product and in funding such accounts.
- We review, in the case of SMAs offered through the Lockwood Program, changes in Portfolio Manager(s) requested by the client or instituted by Lockwood for client's account and, in the case of Lockwood LIS and Lockwood LAAP, changes in the model portfolio(s) requested by the client or instituted by Lockwood for the client's account. For Lockwood AFP, we review changes in the client's model portfolio and the underlying investment vehicles made at the client's direction or instituted by Lockwood for the client's account.
- We contact the client at least once annually to inquire whether any of the client's financial information provided by the client in connection with the Lockwood Programs or the client's investment objectives has changed.
- In the event the client notifies us of any change in client's financial information or investment objectives, we will forward such information to Lockwood and will work with the client in order to assist the client in determining whether the current Portfolio Manager(s) or model portfolio(s) utilized for the client's account remain suitable and, if applicable, in determining the suitability for the client of any new Portfolio Manager(s) or model portfolio(s).

Lockwood, and not us or BBVA Securities Inc., is responsible for model portfolio maintenance in Lockwood AFP, Lockwood LIS and Lockwood LAAP and Portfolio Manager due diligence in SMAs offered through the Lockwood Program. In addition, Lockwood exercises investment discretion over the client's assets in Lockwood LIS, Lockwood LAAP and Lockwood AFP. The designated Portfolio Manager or Portfolio Managers exercise investment discretion over the client's assets in SMAs offered through the Lockwood Program. We do not exercise investment discretion or provide discretionary investment management services for the SMAs offered through the Lockwood Program, Lockwood LIS or Lockwood LAAP but we will exercise limited

discretion, if and as determined by us to be appropriate in light of the client's goals and financial circumstances known to us, to select the investment vehicles for the model portfolio in Lockwood AFP on behalf of the client without obtaining the client's prior approval.

### **Our History and Owners**

BWS was established in June 1996 and was originally known as Stavis Margolis Advisory Services, Inc. In 2005, BWS was acquired by Compass Bank, which became BWS' sole shareholder. Compass Bank is a state-chartered banking institution. In 2007, Compass Bank's parent company was acquired by Banco Bilbao Vizcaya Argentaria, S.A., a publicly-traded multi-national banking organization based in Spain that does business under the name "BBVA." In recognition of our affiliation with BBVA, in 2009 we changed our name to BBVA Wealth Solutions, Inc. Today, we remain a 100%-owned subsidiary of Compass Bank and an indirect 100%-owned subsidiary of BBVA.

### **The Assets We Manage**

As of May 31, 2013, we managed approximately \$322,713,135 in assets for clients on a discretionary basis and managed approximately \$2,102,135 in assets for clients on a non-discretionary basis.

## Fees and Compensation

### **How We Are Paid for our Services**

We are compensated in different ways depending on the types of services we provide. In the case of investment management services, typically clients pay fees that are based on a percentage of the assets managed by us. In some cases, the percentage (asset-based) fees are negotiable, but generally are based on our standard fee schedule. Different fee schedules apply to different investment management services. In the case of the investment consulting services we provide in connection with the Lockwood Program, we are compensated based on a percentage of the assets managed by Lockwood or the Portfolio Managers under the Lockwood Program.

In most cases, clients receiving financial planning services will pay us a negotiated fixed fee.

Clients maintaining accounts with us will incur transaction costs, fees, commissions and other charges and expenses in addition to the fees paid to us. In some cases, we and our employees and affiliated companies may also receive fees and compensation that are in addition to the fees paid directly by the client, including from mutual funds or similar funds, third-party providers and affiliates.

The fees applicable to SmartPath Program accounts are described in the separate SmartPath Disclosure Brochure.

### **Fees Applicable to Separately Managed Accounts (including Legacy St. Johns Investment Management Accounts)**

*Fee Schedule Applicable to Separately Managed Accounts.* The annual investment advisory services fee is a percentage of assets in the account. The standard fee schedule is as follows:

Client Assets Managed	Investment Management Fees*
First \$1,000,000	1.00%
Next \$4,000,000	0.70%
Over \$5,000,000	0.50%
*The minimum annual fee is \$5,000.	

Based on the size and complexity of a client's investment portfolio, we may provide each client with different levels of service customized to meet the client's individual needs. In addition, fees are negotiable in our discretion. We also reserve the right to "grandfather" (not increase) fees applicable to accounts acquired from other advisory firms.

*Fee Billing.* Fees typically are paid quarterly in advance, but may be paid in arrears under certain circumstances. The client has the option to designate that investment advisory services fees will be deducted from the client's account or that the client be invoiced for the fees.

Our asset-based fees apply to all assets in the client's account, including assets invested in shares of mutual funds, exchange-traded funds and money market mutual funds (and other cash equivalent investments). Assets invested in mutual funds, exchange-traded funds and money market funds (or other cash equivalent investments) also charge their own management fees and are subject to additional fees, charges and expenses.

*Other Fees and Charges.* In addition to the investment management fees paid to us, clients will incur other fees, charges and expenses. Additional fees, charges and expenses will include:

- *Mutual Fund and Similar Commissions and Expenses.* If we use mutual funds, ETFs or similar funds for your Separately Managed Account, typically your account will not incur front-end or deferred sales charges in connection with the purchase of mutual funds, ETFs and similar registered pooled investment vehicles companies. However, if we purchase an ETF for your account, in most cases your account will incur a commission that will be paid from the assets of your account. Also, all mutual funds, ETFs and similar funds purchased (including money market mutual funds used for investment of cash balances,) will have ongoing expenses that will impact the return received by your account. These ongoing expenses may include management fees, distribution expenses, 12b-1, shareholder servicing, administrative service and similar fees. Fund charges and expenses are subject to change. A detailed explanation of fund fees and expenses is contained in each fund's prospectus. Clients should carefully read each fund's prospectus.
- *Brokerage and Custodian Fees and Charges.* Clients maintaining Separately Managed Accounts must establish an account with a third-party custodian designated by the client and approved by us. Among other acceptable custodians,



clients are permitted to designate our parent company, Compass Bank, as custodian. Clients will incur all applicable fees, commissions, charges and expenses of the custodian designated by the client. These fees, commissions, charges and expenses are established by the custodian, and are subject to change. In addition, the client will incur all applicable brokerage commissions, transaction charges, exchange fees, SEC fees, wire transfer charges, transfer taxes, electronic fund processing fees and other expenses associated with the transactions within the client's account.

*Changes in Our Fee Schedule.* If you maintain a Separately Managed Account with us, we will obtain your consent prior to changing the investment management fees applicable to your account. We are not obligated to give clients notice of changes in any fees or charges of third parties, including the custodian or mutual funds purchased for the client's account.

*Account Termination.* If you maintain a Separately Managed Account with us, either you or we may terminate the account relationship at any time upon written notice as provided in your investment management agreement with us. If you notify your account's custodian that you are terminating the custodial account linked to your Separately Managed Account, we will consider this to also be notice to us of termination of your Separately Managed Account. If you or we terminate the account, we will prorate our investment management fees and the unused portion will be returned to you.

We will have no obligation to recommend or take any actions with regard to the securities, cash or other investments in a terminated account, but we may, at our option, assist you in liquidating assets and in effecting the transfer of assets to a new custodian designated by you.

### **Fees Applicable to our Services Relating to the Lockwood Program**

We are compensated for our investment consulting services relating to the Lockwood Program through "Consultant Fees." Our Consultant Fees are negotiable on a case-by-case basis taking into account various factors and considerations, including the total level of assets invested by the client under the Lockwood Program. The maximum Consultant Fees are 1.5% per year for SMAs offered through the Lockwood Program, Lockwood LIS and Lockwood LAAP, and are 1.25% per year for Lockwood AFP.

In addition to our Consultant Fees, the client will be responsible to pay all other applicable fees under the designated Lockwood product, including Lockwood's Program

Fees and, in the case of SMAs offered through the Lockwood Program, Portfolio Manager's fees. For your convenience, the range of Lockwood's Program Fee and the fees payable to the Portfolio Managers on the current approved Portfolio Manager list under the Lockwood Program are described below. However, clients should consult the current Lockwood Wrap Fee Program Brochure for complete and up-to-date information regarding Lockwood's Program Fee and the applicable Portfolio Manager's fees. The total of our Consultant Fees, the Lockwood Program Fee and, if applicable, the Portfolio Managers' fees will not exceed 3.0%.

### **SMAs offered through the Lockwood Program**

Equity and Balanced Portfolios				
Asset Level	Lockwood Program Fee*	Portfolio Manager Fees**	Maximum Consultant Fees	Range of Total Program Fee, Managers' Fees and Consultant Fees
First \$500,000	0.58%	0.25% - 0.66%	1.50%	2.23% - 2.74%
Next \$500,000	0.44%			2.19% - 2.60%
Next \$4,000,000	0.35%			2.10% - 2.51%
Next \$5,000,000	0.28%			2.03% - 2.44%
Over \$10,000,000	0.25%			2.0% - 2.41%

Fixed Income Portfolios				
Asset Level	Lockwood Program Fee*	Portfolio Manager Fees**	Maximum Consultant Fees	Range of Total Program Fee, Managers' Fees and Consultant Fees
First \$500,000	0.33%	0.25% - 0.66%	1.50%	2.08% - 2.49%
Next \$500,000	0.26%			2.01% - 2.42%
Next \$4,000,000	0.19%			1.94% - 2.35%
Next \$5,000,000	0.15%			1.90% - 2.31%
Over \$10,000,000	0.15%			1.90% - 2.31%

\* Includes Lockwood's sponsor/advisory fee and the Lockwood Program Custodian clearing and custody fees.

\*\* Portfolio Manager's fees vary based on the Portfolio Manager(s) selected and, in some cases, on the assets under management. Consult the Lockwood Wrap Fee Program Brochure for information concerning applicable the Portfolio Manager's fees.

### Lockwood LIS

Asset Level	Lockwood Program Fee*	Maximum Consultant Fees	Maximum Combined Lockwood Fees and Consultant Fees
First \$500,000	0.75%	1.50%	2.25%
Next \$500,000	0.55%		2.05%
Next \$4,000,000	0.40%		1.90%
Next \$5,000,000	0.35%		1.85%
Over \$10,000,000	0.30%		1.80%

\* Includes Lockwood's advisory fee, Lockwood's sponsor fee, the Sub-Adviser fees and the Lockwood Program Custodian's clearing and custody fee.

### Lockwood LAAP

Asset Level	Lockwood Program Fee*	Maximum Consultant Fees	Maximum Combined Lockwood and Consultant Fees
First \$500,000	0.40%	1.50%	1.90%
Next \$500,000	0.35%		1.85%
Next \$4,000,000	0.30%		1.80%
Next \$5,000,000	0.25%		1.75%
Over \$10,000,000	0.20%		1.70%

\* Includes Lockwood's advisory fee, Lockwood's sponsor fee, the Sub-Adviser fees and the Lockwood Program Custodian's clearing and custody fee.

### Lockwood AFP

Asset Level	Lockwood Program Fee*	Maximum Consultant Fees	Maximum Combined Lockwood and Consultant Fees
First \$500,000	0.40%	1.25%	1.65%
Next \$500,000	0.35%		1.60%
Over \$1,000,000	0.25%		1.50%

\* Includes Lockwood's advisory fee, Lockwood's sponsor fee and the Lockwood Program Custodian's clearing and custody fee.

The Lockwood Program Fee and our Consultant Fees do not include fees and expenses associated with the underlying pooled investment vehicles (such as mutual funds and exchange-traded funds), which fees and expenses include advisory fees and operational expenses such as transfer agent, distribution (12b-1), shareholder servicing, networking

and recordkeeping fees. Your Lockwood Program accounts will bear these fees and expenses as an investor in such pooled investment vehicle and, as a result, may bear higher expenses than if you invested directly in the securities held in the pooled investment vehicle. In addition, there are certain fees and charges that will apply in addition to the Lockwood Program Fee, our Consultant Fee and applicable Portfolio Manager's fees, including costs associated with the purchase and sale of certain mutual funds and similar securities held in your account, dealer mark-ups, odd-lot differentials, exchange or auction fees, transfer fees, costs for transactions executed other than at the Lockwood Program Custodian, any fees imposed by the SEC, electronic fund and wire transfers, costs associated with temporary investments of your funds in a cash management account, trust services charges, annual IRA custodial fees, IRA termination fees, custodial fees for prototype pension and profit-sharing plans and Keoghs, custodial fees associated with special events, such as transfer on death, returned check fees and other charges mandated by laws. Also, interest normally will be charged on a negative balance in your account.

Unless otherwise indicated in the Lockwood Wrap Fee Program Brochure, our Consultant Fees, Lockwood's Program Fee and the Portfolio Manager's fees are charged quarterly in advance and assessed at the beginning of each calendar quarter based on the value of the assets under management in the client's Lockwood Program account as of the close of business on the last business day of the preceding quarter. Under certain circumstances described in Lockwood's Wrap Fee Program Brochure, Client is permitted to "household" accounts under the Lockwood Program (but not other accounts with Lockwood, us, Pershing or BBVA Securities Inc.) in determining eligibility for breakpoints in the calculation of Lockwood's Program Fee. Pursuant to the Lockwood Program account documentation, the client authorizes the Lockwood Program Custodian to deduct our Consultant Fees, the Lockwood Program Fee and applicable Portfolio Manager's fees from the assets in the client's Lockwood Program account(s).

Prior to changing the Consultant Fees applicable to your Lockwood Program accounts, we will provide you with written notice that will specify the date when the change will take effect. The change will take effect automatically on the date specified in the notice, but you may terminate your account by written notice to us and a pro-rata refund of any unearned Consultant Fees will be remitted to you. We are not obligated to give you notice of changes in any fees or charges of third parties, including Lockwood, the Portfolio Managers or any mutual funds or other pooled investment vehicles purchased for your account. Please consult the Lockwood Wrap Fee Program Brochure for information regarding the ability of Lockwood and the Portfolio Managers to institute fee changes.

Our investment consulting agreement with you will terminate upon the termination, for reason, of your agreement with Lockwood relating to the Lockwood Programs. In addition, we may, in our sole discretion, terminate our investment consulting agreement with you by giving you prior notice of termination. In such instances, we will not be liable for any loss incurred by you. Upon termination of our investment consulting agreement with you, we will not be under any obligation to recommend any action with regard to the investments in your Lockwood Program accounts. You will remain liable for all Consultant Fees through the effective date of the termination of our investment consulting agreement, but will prorate our Consultant Fees and the unused portion will be returned to you. Please consult the Lockwood Wrap Fee Program Brochure for information regarding your and Lockwood's rights to terminate your Lockwood Program agreement and the impact of such termination on Lockwood's and the Portfolio Managers' fees.

### **Fees Applicable to Financial Planning Services**

**Note: As of March 1, 2013, we no longer provide financial planning services.**

A fixed fee is specified up front and included in the financial planning contract. The level of fees charged is based on the specific planning services to be provided and the complexity of the client's financial situation and objectives. For modular planning, the fee can be less. For more complex planning, the fee can be higher. The fee is due upon execution of the financial planning contract, unless other payment arrangements are negotiated. The client may terminate the contract without penalty within five business days after its effective date. For limited scope engagements or special projects where the amount of time and resources cannot be clearly identified up front, fees are negotiable based on the anticipated amount of time that will be spent by our senior management on providing the desired services.

Occasionally, senior management and representatives teach seminars focusing on various areas of financial planning through colleges, professional associations, or other organized groups. We charge for such seminars on a negotiated fee basis. The sponsoring organization may charge a fee to attendees and provide continuing education credits.

We complement our financial planning services with investment and insurance products. To minimize the potential for conflicts between planning and implementation, the portion of the financial plan created by us relating to investment and insurance products will recommend the general types of insurance and investment

products that may be appropriate for the client's circumstances, but will not contain specific product recommendations unless requested by the client. If requested by the client, we will provide information regarding specific or representative products available through our broker-dealer and/or insurance agency affiliates. However, under no circumstances does the receipt from us of a financial plan obligate our client to obtain any investment or insurance products from our affiliates.

We do not charge additional fees for product implementation services provided by our representatives. However, if a client decides to purchase products recommended as part of a financial plan prepared by us, the client must establish relationships with one or more brokerage firms, insurance agencies and/or other vendors in order to complete the purchase of such products. The client may, but is not required to, utilize the services of our representatives who act as insurance agents of our insurance agency affiliate, BBVA Compass Insurance Agency, Inc. ("BCIA"), brokerage representatives of our broker-dealer affiliate BBVA Securities Inc., or representatives of third-party providers of investment and insurance products. If the client determines to use our representatives who are also insurance agents, brokerage representatives or representatives of third-party product providers, those representatives and our affiliates will receive commissions, premiums or other compensation.

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

We do not charge advisory fees on a share of the capital appreciation of the funds or securities in a client account (so-called performance based fees). Advisory fee compensation is charged only as disclosed above (Fees and Compensation).

## **Types of Clients**

We provide services to, among others:

- Individuals, including high net worth individuals
- Trusts, estates and charitable organizations
- Corporations or other business entities
- Taft-Hartley plans, governmental plans and municipalities
- Not for profit entities
- Individual retirement plans

### **Minimum Account Size and Account Opening Requirements**

In the case of investment management accounts, the minimum investment portfolio size is \$500,000, but in some cases we will permit a client to aggregate related accounts or are willing to accept a lower minimum. We have full discretion to allow or not allow exceptions, however.

To establish a Separately Managed Account relationship, you must designate a third-party custodian acceptable to us and open an account with that third-party custodian.

Under the Lockwood Program, clients must satisfy minimum account balances. In the case of the SMAs offered through the Lockwood Program, each Portfolio Manager, including Lockwood, sets its own account minimums. Please consult the Lockwood Wrap Fee Brochure for information concerning applicable account minimums. The minimum amount to open either a Lockwood LAAP account or a Lockwood AFP account is \$50,000 and the minimum for subsequent contributions is \$1,000. The minimum amount to open a Lockwood LIS account is \$250,000 and the minimum for subsequent contributions is \$2,500.

In connection with participating in the Lockwood Program, clients are required to establish one or more clearing and custody accounts with the Lockwood Program Custodian and execute Lockwood's typical account opening documentation for the Lockwood Programs, including an Investment Advisory Profile and Agreement with Lockwood. BBVA Securities Inc., through its BBVA Compass Investment Solutions



division, acts as introducing broker for the Lockwood Program Custodian and broker-dealer services relating to the establishment and maintenance of the client's Lockwood Program accounts will be provided by BCIS, and not by us. The provision of brokerage services by BBVA Securities Inc. is subject to all the terms and conditions of the client's BBVA Securities Inc. Customer Agreement.

In addition, in order to obtain our investment consulting services relating to the Lockwood Programs, clients are required to execute an investment consulting agreement with us.

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

### Analysis

Separately Managed Accounts (Core Equity Model). We also offer our clients Separately Managed Accounts. If you participate in a separately managed account program, we will assist you in constructing a portfolio comprised of a combination of equity and fixed-income securities, equity exchange-traded funds, and money market mutual funds (or other short-term investment vehicles) that is designed to assist you in pursuing your identified financial goals and is consistent with your risk tolerance.

The equity component of our Separately Managed Account portfolios will be comprised, in whole or in part, of our Core Equity Model. Under the Core Equity Model, the client's portfolio is invested predominantly in a portfolio of equity securities selected by us from time to time for our "Core Model." The Core Model is a long-term, large-cap equity strategy model managed to pursue long-term growth through a stock specific portfolio subject to sector weight constraints. In addition to the Core Model large-cap equities, in most cases the client's portfolio will contain ETFs invested in other equity asset classifications (such as small-cap equities, mid-cap equities and international equities). In some cases, the "non-cash" portion of a client's portfolio will also contain mutual fund investments.

*Core Equity Model.* The Core Model is a long-term strategy model managed to pursue long-term growth through a stock specific portfolio subject to sector weighing constraints. Currently, we utilize research purchased by us from various independent sources, research available from brokerage and investment banking firms, and various periodicals and subscription services. These ancillary sources are used mostly for strategic reasons (economic and investment overview rather than company specific industry recommendations). Generally, we do not attend conferences or meet with company management but will participate in conference calls via the Internet. We use a Four Factor Model for equity valuation, considering both fundamental and technical research analytics to arrive at a given score for each security evaluated. The Four Factor Model gives a 65% weight to fundamental factors and a 35% weight to technical factors. When new names are being considered for the model, the score of each potential new entrant is compared against the score of other possible new entrants. Overall, we aim to position the Core Model with an above average earnings, sales, return on equity (ROE), and forward earnings growth relative to the S&P 500 Index,

but also with a PEG Ratio (price-to-earnings divided by expected future growth rate) below the benchmark.

In the case of our Separately Managed Accounts that invest, in whole or in part, in fixed-income securities, we typically purchase individual fixed income securities rather than ETFs or mutual funds.

### **Investment Strategies**

We and our client develop a target asset allocation based on the client's individual income needs, risk tolerance, and income tax situation. We evaluate existing investments taking into account their suitability for client's stated objectives and their economic and tax characteristics.

Based on the information concerning the client's individual financial situation and risk tolerance and our analysis of the other tools and information available to us, we recommend an investment objective for the client. Where appropriate, we recommend that the client's assets be invested through identified portfolios available under our Separately Managed Account program, SmartPath Program or the Lockwood Program.

### **Risk of Loss**

All investments in securities include a risk of loss of a client's principal (invested amount) and any profits that have not been realized (the securities were not sold to "lock in" the profit). Stock markets and bond markets fluctuate substantially over time. In addition, as recent global and domestic economic events have indicated, performance of any investment is not guaranteed. As a result, there is a risk of loss of the managed assets.

Our investment approach takes into consideration the potential risk of loss and seeks to match the investment strategy employed for you with your tolerance for potential fluctuations in markets and incurring losses. Generally, you must invest in securities that have a higher risk of loss in order to obtain a higher potential for long-term gains. There is no guarantee that our investment strategies will meet your objectives or, in any event, protect your assets from the potential for losses. Depending on the types of securities you invest in, you may face the investment risks described below:

- Equity investments are highly volatile and are subject to stock market risk, with the chance that stock prices overall will decline. Stock markets tend to move in cycles, with periods of rising prices and periods of falling prices.

- Bond and interest rates have an inverse relationship. For example, when interest rates rise, bond prices fall.
- Portfolios that invest in lower-rated debt securities (commonly referred to as junk bonds) involve additional risks because of the lower credit quality of the securities in the portfolio. As a result, investment in junk bonds may expose clients to a higher level of volatility and increased risk of default.
- International investing involves special risks including greater economic and political instability, as well as currency fluctuation risks, which may be even greater in emerging markets.
- Investments in stocks of small companies involve additional risks. Smaller companies typically have a higher risk of failure and are not as well-established as larger blue chip companies. Historically, smaller-company stocks have experienced a greater degree of market volatility than the overall market average.
- Investments in real estate have various risks including possible lack of liquidity and devaluation based on adverse economic and regulatory changes.
- The price of commodities, such as gold and currency, is subject to substantial price fluctuations of short periods of time and may be affected by unpredictable international monetary and political policies. The market for commodities is widely unregulated and concentrated investing may lead to higher price volatility.
- In the case of clients that are invested exclusively in the Core Equity Model, because your portfolio will primarily hold individual stocks, the Core Equity Model is subject to stock-selection risk and may either outperform or underperform the overall stock market.

In addition, in the case of the Core Equity Model, you should note that the Core Equity Model will focus primarily on large-capitalization stocks. There is a risk that returns from large-capitalization stocks will trail returns from the overall stock market. Large-cap stocks tend to go through cycles of doing better -- or worse -- than the stock market in general. The duration of these periods have, in the past, lasted for as long as several years and, in any event, cannot be predicted.

## **Selected Information Regarding Fund Investments**

Below is a brief description of the characteristics of mutual funds, ETFs and money market mutual funds. In the case of both mutual funds and ETFs, investment returns will fluctuate and are subject to market volatility, so that an investor's shares, when redeemed or sold, may be worth more or less than their original cost. **Past performance is no guarantee of future results.**

It also should be noted that:

- Equity-based mutual funds are subject to risks similar to those of stocks.
- Fixed-income mutual funds are subject to risks similar to those of bonds, but also are subject to certain risks similar to those of publicly-traded equity securities. Fixed income risks include credit risk, interest rate risk and prepayment risk.
- Mutual funds that invest in foreign (non-U.S.) securities have unique and greater risks than mutual funds that invest only in U.S. domestic securities.

*Mutual Funds.* Mutual funds are investment companies that are registered under the Investment Company Act of 1940. Typically, mutual funds are managed by investment advisers who research, select and monitor the securities held in the fund. Mutual funds sell and redeem their shares at net asset value (NAV).

*ETFs:* ETFs are investment companies that are registered under the Investment Company Act of 1940 and typically have the flexibility of intraday trading. Typically, ETFs are passively managed and track specific domestic or foreign market indices, and may provide investors with diversification, certain tax and cost efficiencies and liquidity. Generally, ETF shares trade between investors like a publicly traded stock. Because ETF shares are traded on an on-going basis, the market determines prices and investors can buy and sell shares at any time that the markets are open. Since ETFs are priced continuously by the market, there is a potential for trading to occur at prices other than the NAV.

An index-based ETF seeks to track the performance of its corresponding index. Tracking is achieved by some ETFs by replicating the securities in the index and by other ETFs by holding a representative sample of the securities in the index. Normally, the expenses of an ETF are lower than the expenses of actively managed mutual funds because actively managed mutual funds will have higher management fees and brokerage costs. However, investors who buy and sell ETF shares in the secondary market generally pay brokerage commissions in connection with those transactions.

*Money Market Mutual Funds.* Money market mutual funds are investment companies that are registered under the Investment Company Act of 1940, which, like other mutual funds, are managed by investment advisers that select and monitor the securities held in the fund and sell and redeem their shares at NAV.

*An investment in a money market mutual fund is not insured or guaranteed by the United States Government, the Federal Deposit Insurance Corporation or any other governmental agency. Money market mutual funds seek to maintain the value of investments made in the funds at \$1.00 per share; however, it is possible to lose money by investing in a money market mutual fund.*

## **Disciplinary Information**

Registered investment advisers are required to disclose in their Disclosure Brochures all material facts regarding any legal or disciplinary events that would be material to a client's evaluation of the advisory firm or the integrity of its management. We have no such material events to disclose.

## Other Financial Industry Activities and Affiliations

### **Insurance and Securities Activities**

In some cases, our investment adviser representatives also represent our affiliates or third parties as insurance agents or broker-dealer representatives, or both. Also, some of our employees are also employees of our parent company, Compass Bank.

Some of our investment adviser representatives and other employees also sell insurance products, hold licenses as insurance agents of our affiliate, BCIA and represent one or more unaffiliated insurance product providers. In addition, certain representatives are licensed to sell products of life insurance companies based upon the needs of our clients. This activity is conducted through our insurance agency affiliate, BCIA.

Some of our registered investment adviser representatives and other employees also act as registered representatives of our affiliate, BBVA Securities Inc. BBVA Securities Inc. is a registered broker-dealer with the SEC and a member of FINRA.

The activities conducted by our employees as insurance agents and broker-dealer representatives of our affiliates, or of unaffiliated firms, create certain conflicts of interest.

*Clients May Open Pershing LLC Accounts Through Our Employees Representing BBVA Securities Inc.* Among other things, BBVA Securities Inc. maintains clearing relationships with Pershing LLC, a BNY Mellon company, and acts as an introducing broker for Pershing LLC. Pershing LLC is not affiliated with us or BBVA Securities Inc. The client's Pershing LLC account will be "fully disclosed," meaning that the client's identity will be disclosed to Pershing LLC.

*Financial Planning Clients May Purchase Insurance Products Through Our Employees Representing Affiliated or Unaffiliated Insurance Product Providers.* If you decide to purchase insurance products recommended as part of a financial plan that we prepared, you must establish relationships with one or more insurance agencies and/or other vendors to effectuate the purchase of such products. You may (but are not required to) utilize the services of one or more of our representatives of our affiliate, BCIA, who are licensed insurance agents, or that serve in other licensed



capacities on behalf of various third-party providers of investment and insurance products. In those instances, our affiliate, BCIA, and its appropriately licensed representatives, will receive commissions, premiums or other compensation. [**Note:** As of March 1, 2013, we no longer offer financial planning services.]

*Financial Planning Clients May Purchase Securities Products Through Our Employees Representing BBVA Securities Inc.* If you decide to purchase securities products recommended as part of a financial plan that we prepared, you must establish relationships with one or more brokerage firms, or other vendors to effectuate the purchase of such products. You may (but are not required to) utilize the services of one or more of our representatives who are registered brokerage representatives or that serve in other licensed capacities on behalf of various third-party providers of investments, including our affiliate, BBVA Securities Inc.. In those instances, our affiliate, BBVA Securities Inc., and our appropriately licensed representatives, will receive commissions, premiums or other compensation. **Note:** As of March 1, 2013, we no longer offer financial planning services.]

*Clients May Conduct Unrelated Transactions Through Our Employees Representing BBVA Securities Inc.* In certain instances, clients may use the services of BBVA Securities Inc. for transactions outside of the client's investment management or other account maintained with us. In those cases, our representatives who are registered representatives of BBVA Securities Inc. may recommend securities, insurance products or other products, and may receive customary commissions or other compensation if such products are purchased through BBVA Securities Inc.

### **SmartPath Program**

BBVA Securities Inc., through its BBVA Compass Investment Solutions division, will serve as introducing broker, and Pershing LLC will serve as clearing broker and custodian for our SmartPath Program. The SmartPath Program offers qualifying clients access to individualized investment management through mutual fund asset allocation models, unified managed accounts and separately managed accounts.

### **Lockwood Program**

We provide investment consulting services pursuant in connection with the participation by clients in the Lockwood Program. The Lockwood Program is sponsored by Lockwood Advisors, Inc. ("Lockwood"), a registered investment adviser. Certain aspects of our clients' participation in the designated Lockwood Program will be coordinated through our registered broker-dealer affiliate, BBVA Securities Inc., acting

through its BBVA Compass Investment Solutions division, in its capacity as introducing broker for the Lockwood Program Custodian, Pershing. Pershing is an affiliate of Lockwood and a registered broker-dealer. Lockwood and Pershing are not affiliated with us or BBVA Securities Inc.. Our services under the Lockwood Program are non-discretionary, except that, under Lockwood AFP, we will exercise limited discretion, if and as determined by us to be appropriate in light of the client's goals and financial circumstances known to us, to select the investment vehicles for the model portfolio on behalf of the client without obtaining the client's prior approval.

From time to time, we will designate one of our individual investment adviser representatives to serve as the client's "Consultant." The Consultant will assist the client in connection with the client's participation in the Lockwood product designated by client. Consultant also will be a registered representative of BBVA Securities Inc. In addition to salary and other compensation paid to the Consultant by us, BBVA Securities Inc. or our other affiliates, the Consultant will receive a portion of our Consultant Fees as compensation related to the client's participation in the Lockwood Program.

In connection with participating in the Lockwood Program, clients are required to establish one or more clearing and custody accounts with the Lockwood Program Custodian. BBVA Securities Inc., through its BBVA Compass Investment Solutions division, acts as introducing broker for the Lockwood Program Custodian and broker-dealer services relating to the establishment and maintenance of the client's Lockwood Program accounts will be provided by BBVA Securities Inc., and not by us. The provision of brokerage services to by BBVA Securities Inc. is subject to all the terms and conditions of the client's BBVA Securities Inc. Customer Agreement.

### **Banking Activities**

We are a wholly owned subsidiary of Compass Bank. We have various arrangements with Compass Bank under which Compass Bank may refer certain of its clients to us for investment management services. We also provide investment management support and model portfolio recommendations to Compass Bank for Compass Bank's use in the management of certain investment accounts. You may (but are not required to) designate Compass Bank as custodian of your account(s) maintained with us.

### **Affiliate Arrangements**

We may purchase certain goods and services or obtain administrative, custody, safekeeping and operational support from our direct parent company, Compass Bank or other affiliates of Banco Bilbao Vizcaya Argentaria, S.A. by entering into agreements or

arrangements with such affiliate. If deemed appropriate under the circumstances or required under banking laws, we will pay compensation to our affiliates for such goods, services or support. If Compass Bank provides us with goods and services, banking laws generally require that we provide Compass Bank compensation that is at least as favorable to Compass Bank as the compensation we would pay an unaffiliated third party for similar goods and services in an arms-length transaction.

## **Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

### **Code of Ethics**

As required by law, we have adopted a Code of Ethics establishing policies and procedures to handle potential conflicts of interest that may arise from providing advisory services to you.

Our Code of Ethics recognizes that we are a fiduciary and is designed so that we meet our fiduciary obligation to you by setting forth standards of conduct for our directors, officers and employees and requiring compliance with federal securities laws.

Our Code of Ethics is based upon the principle that our employees owe a duty to you to conduct their affairs, including their personal securities transactions, in such a manner as to avoid 1) serving their own personal interests ahead of your interests, 2) taking inappropriate advantage of their position as an employee, and 3) any actual or potential conflicts of interest or any abuse of their position of trust and responsibility.

Our Code of Ethics:

- Requires that we maintain the confidentiality of your information;
- Prohibits:
  - Insider trading (if we are in possession of material, non-public information);
  - Rumor mongering;
  - The acceptance of gifts and entertainment that exceed our policy standards;
- Requires the reporting of gifts and business entertainment by certain of our employees;
- Requires that certain employees pre-clear their personal securities transactions;
- Requires that certain of our employees report (on an on-going and quarterly basis) all of their personal securities transactions (what we call “reportable securities” as mandated by regulation); and

- Requires that all of our officers, directors and employees re-certify to our Code of Ethics, identify members of their household and any account to which they have a beneficial ownership (that is, they “own” the account or have “authority” over the account), and identify securities held in certificate form and all securities .

Also, our Code of Ethics also provides that no director, officer or employee may trade securities, either personally or on behalf of others, while in possession of material, non-public information with respect to any such securities, or may communicate material, non-public information to others, other than as required and allowed by the Code of Ethics.

Our management may impose a number of sanctions which it feels is most appropriate for violations of the Code of Ethics.

To receive a copy of our Code of Ethics, you should contact your account representative or call us at 713-552-9277 or 904-399-0662.

### **Participation or Interest in Client Transactions**

We are a wholly owned, direct subsidiary of Compass Bank, the lead bank subsidiary of BBVA Compass Bancshares, Inc., a Texas bank holding company. We also are an indirect subsidiary of Banco Bilbao Vizcaya Argentaria, S.A. (“BBVA”), a bank organized under the laws of Spain qualified to engage in business in the United States as a bank holding company and foreign banking organization. BBVA, Compass Bank and their affiliates may have a variety of banking, financial or service relationships with corporations or other business enterprises the securities of which may be purchased or sold by us for its clients' accounts. BBVA, Compass Bank or their affiliates may receive compensation from such corporations or other business enterprises in the ordinary course of their business. Because of internal controls maintained by BBVA, Compass Bank and us in order to minimize any potential conflict of interest created by these relationships, recommendations to our advisory clients typically will be made without knowledge of other banking, financial or services relationships between BBVA, Compass Bank or their affiliates and the issuers of securities recommended by us.

BBVA Compass Wealth Management, a division of Compass Bank (our parent company), may purchase or sell for trust, fiduciary, and investment management clients or recommend that such accounts purchase or sell securities of the same type as those purchased or sold by us for our clients' accounts.

While we do not act as a principal in the purchase or sale of any securities, with a client or otherwise, our parent company (Compass Bank) is a municipal securities dealer and may be involved, as principal, in the underwriting, placement and distribution of municipal securities. It is possible that we may recommend or purchase a municipal security underwritten, placed or distributed by Compass Bank. In addition, our affiliate, BBVA Securities, Inc., is a registered broker-dealer that also engages in a wide range of investment banking activities, including underwriting, placement and distribution of corporate and municipal securities. It is possible that we may recommend or purchase a corporate security or municipal security underwritten, placed or distributed by BBVA Securities Inc. On May 16, 2013, our affiliated broker-dealer, BBVA Compass Investment Solutions, Inc., merged with and into another affiliated broker-dealer, BBVA Securities Inc. The surviving entity resulting from the merger is BBVA Securities Inc., a Delaware corporation, and BBVA Compass Investment Solutions will operate as a division of BBVA Securities Inc.

We, BBVA, Compass Bank and their affiliates maintain policies and procedures for ensuring that any material, non-public information regarding publicly traded securities that we or our employees may obtain, including by virtue of banking and other relationships any such issuer may have with us, BBVA, Compass Bank or their affiliates is not misused in violation of applicable law.

Assets of client accounts that are invested in mutual funds, ETFs and similar funds are subject to advisory and other fees and expenses, as set forth in the applicable fund prospectus, and although such fees and expenses typically are paid by the fund, they reduce the overall return realized by the investor. Furthermore, assets of a client's account invested in shares of funds, including money market mutual funds, or other short-term investment vehicles, will be included in calculating the value of the account for purposes of computing our investment management services fees.

We, our representatives and our affiliates may receive fees and other compensation in addition to the fees we charge to your account for investment management services. Our investment advisory services fees are not reduced by the amount of the additional fees and other compensation received by us, our representatives or our affiliates. This presents a conflict of interest and gives us or our representatives an incentive to recommend investment products based on the compensation received, rather than on a client's needs.

- If BBVA Securities Inc., through its BBVA Compass Investment Solutions division, acted as introducing broker in setting up your account with Pershing (other than in the case of the Lockwood Program), BBVA Securities Inc. will be paid a portion of the fees, commissions and other charges imposed by Pershing.
- If you open your account with securities previously purchased through an introducing broker or one of our representatives, you may already have paid a commission on the purchase to the introducing broker or to our representative, or both. Similarly, if you open your account with cash proceeds from the sale of securities through an introducing broker or our representative, the introducing broker or our representative, or both, may have already received commissions of the sale.
- If BBVA Securities Inc., through its BBVA Compass Investment Solutions division, acts as introducing broker in connection with establishing your custody account with Pershing (other than in the case of the Lockwood Program), BBVA Securities Inc., our affiliate, will receive commissions if we determine to purchase or sell ETFs for your account.
- Our investment adviser representatives who are also brokerage representatives of BBVA Securities Inc. have the opportunity to participate in various sales contests that provide rewards to such individuals on the basis of the satisfaction of identified sales goals involving investment products and services. These contests give eligible representatives an incentive to recommend investment products. In some cases, the activities of our representatives in promoting our services will impact the achievement by such representatives of goals under sales contest and similar promotional programs.
- Our investment adviser representatives that serve as the clients “Consultants” in connection with the client’s participation in the Lockwood Programs will receive, in addition to salary and other compensation paid to the representative by us, BBVA Securities Inc. or our other affiliates, a portion of our Consultant Fees.

In the case of our financial planning services, we do not charge additional fees for product implementation services provided by our representatives. However, if a client decides to purchase products recommended as part of a financial plan prepared by us, the client must establish relationships with one or more brokerage firms, insurance agencies and/or other vendors in order to complete the purchase of such products. The client is free to, but not required to, utilize the services of representatives of our

insurance agency affiliate, BCIA, who act as insurance agents, brokerage representatives of our broker-dealer affiliate, BCIS, or representatives of third-party providers of investment and insurance products. If the client determines to use representatives of BCIA, BCIS or our other affiliates, such representatives will receive commissions, premiums or other compensation. [Note: As of March 1, 2013, we no longer offer financial planning services.]

### **Personal Trading**

Certain of our directors, officers and employees are considered “Access Persons” under our Code of Ethics. Access Persons must pre-clear all personal securities transactions except 1) transactions effected pursuant to an automatic investment plan, 2) securities transactions for accounts over which the Access Person has no direct or indirect influence or control, and 3) trades in U.S. Government Securities, U.S. Agency Securities, mutual funds and money market funds.

The following persons are considered “Access Persons”:

- All of our directors and certain officers, and
- Other employees and other advisory personnel who:
  - o Have access to nonpublic information regarding any clients’ purchases and sales of securities, or
  - o Are involved in making securities recommendations to clients, or who have access to such recommendations that are nonpublic.

Generally, our Consultants and other representatives who act as the liaison for clients do not have access to nonpublic information regarding client purchases and sales of securities, make recommendations concerning the securities that are purchased or sold for the client’s account, or have access to nonpublic information concerning such recommendations. As a result, our Consultants and other representatives who act as the liaison for clients generally will not be Access Persons and, therefore, are not required to pre-clear their personal securities transactions.

Our Chief Compliance Officer, Lauren Jordan, serves as preclearance officer. Ms. Jordan is not an Access Person and, therefore, her personal trades are not subject to preclearance. If the Chief Compliance Officer is unavailable for more than 48 hours, a member of the Compass Bank Investment Compliance Team designated by the Chief Compliance Officer may act as preclearance officer in the Chief Compliance Officer’s absence.

## Brokerage Practices

### **Broker Selection and Trade Allocation**

We will arrange for the execution of securities transactions for client accounts through brokers or dealers that we reasonably believe will provide best execution. In selecting a broker or dealer, we will consider, among other things, the broker or dealer's execution capabilities, the reputation of the broker or dealer and the broker or dealer's access to the markets for the securities being traded. Generally, we will seek competitive commission rates, but will not necessarily attempt to obtain the lowest possible commission for transactions for the account.

Our decisions to recommend, purchase, sell or hold securities for our client accounts are based on the specific investment objectives, guidelines, restrictions and circumstances of each account. We attempt to allocate, to the extent operationally and otherwise practical, investment opportunities to each client over a period of time on a fair and equitable basis relative to our other clients.

#### *Trading Procedures Applicable to Separately Managed Accounts.*

Our Core Equity Model is available both to our Separately Managed Account clients (i.e., non-wrap clients) and to clients who participate in the SmartPath Managers Portfolios wrap fee program (through the SmartPath Core Portfolio). Also, recommended model selections relating to the SmartPath CIC Strategy Portfolios provided by our affiliate, CIC, also will be followed by CIC in making investments on behalf of its own clients. In addition, it is possible that, from time to time, the same equity securities may be selected by us for our Core Equity Model and recommended by CIC for the SmartPath CIC Strategy Portfolios. These factors may result in conflicts of interest in trading equity securities for our clients.

We employ the following trading procedures in connection with Separately Managed Accounts:

- We may allocate investment opportunities based on numerous considerations, including cash availability and/or liquidity requirements, the time competing accounts have had funds available for investment or have had investments available for sale, investment objectives and restrictions, an account's participation in other



opportunities, tax considerations, and relative size of portfolio holdings of the same or comparable securities.

- When we believe it is desirable, appropriate and feasible to purchase or sell the same security for a number of our advisory clients (including our Separately Managed Account clients and our clients participating our SmartPath (wrap fee) Program) at the same time, we may aggregate client orders in a way that seeks to obtain more favorable executions, in terms of the price at which the security is purchased or sold and the efficiency of the processing of the transactions. Generally, trades on the same day in an equity security for accounts participating in the SmartPath Diversified Portfolios will be aggregated, trades on the same day in an equity security for accounts participating in the SmartPath Core Portfolio will be aggregated and trades on the same day in an equity security for accounts participating in the SmartPath CIC Strategy Portfolios will be aggregated; however, trades in the same equity security by one or more of the SmartPath Diversified Portfolios, the SmartPath Core Portfolios and/or one or more of the SmartPath CIC Strategy Portfolios, as the case may be, generally will not be aggregated but, to the extent feasible and considered by us to be desirable, we will use our best efforts to effect such trades on the same day. We will employ a trade rotation procedure among the SmartPath Diversified Portfolios, the Core Equity Model (both for our Separately Managed Account clients and for SmartPath Core Portfolio (wrap) clients), the SmartPath CIC Strategy Portfolios and our SmartPath International Diversified Portfolio and the SmartPath International Diversified Portfolios.

*For example, if on a particular trading day trades are entered for the same equity security on behalf of the SmartPath Diversified Portfolios, the Core Equity Model (both for Separately Managed Account clients and SmartPath Core Portfolio (wrap) clients), the SmartPath CIC Strategy Portfolios and our SmartPath International Diversified Portfolios, trades may be placed for the SmartPath Diversified Portfolios first, then for the Core Equity Model second, then for the SmartPath CIC Strategy Portfolios third and then for the SmartPath International Diversified Portfolios last. But, on the next trading day, trades would be placed first for the Core Equity Model (both for Separately Managed Account clients and for SmartPath Core Portfolio (wrap) clients), then for the SmartPath CIC Strategies and then for the SmartPath International Diversified Portfolios, and trades for the SmartPath Diversified Portfolios would be placed last.*

In the case of the Core Equity Model, trades in the same equity security for Program clients in the SmartPath Core Portfolio and Non-Program Core Equity Clients will be subject to an additional rotation process described below.

- Before entering an aggregated order, a Pre-Trade Allocation Report is prepared by the Portfolio Analyst for each custodian holding the assets of our advisory clients (including custodians holding client assets under wrap programs sponsored by us and custodians holding the assets of clients who do not participate in such wrap programs), listing each client account and the quantity that will be allocated to that account. Trades are placed for clients whose assets are held at the various custodians and on a rotational basis.

*For example, if on a particular trading day Separately Managed Account clients have assets held by Schwab, Compass Bank, Fidelity, Pershing LLC (as custodian of the SmartPath Program) and two additional custodians ("Custodian X" and "Custodian Y"), trades may be placed for accounts which custody with Schwab first, then for accounts which custody with Compass Bank, then for clients who custody with Fidelity, then for clients under the SmartPath Program, then for clients which custody with Custodian X, and then for clients which custody with Custodian Y. But, on the next trading day, trades would be placed first for clients whose custodian is listed next in the rotation and trades for clients whose custodian is Schwab would be placed last.*

Separate aggregated orders (i.e., block trades) will be executed by each of the custodians in the rotation for the clients whose assets they hold. The number of custodians included in the equity trading rotation will vary dependent upon the number of custodians then holding assets of our clients. Where it is anticipated that a particular security will be both bought and sold for client accounts contemporaneously, we generally will place sell orders before buy orders and all contemporaneous sell order and buy orders will be placed in accordance with the same trade rotation. Under certain circumstances, the custodians/brokers designated by our advisory clients who direct trades within their accounts will also be included in the trade rotation.

- Although we will place aggregated trades on a rotational basis as described above, there is no assurance that the actual execution of the aggregated trades by the various custodians will occur in the order of the rotation established by us.

- Once an aggregated trade is completed for clients holding assets at a particular custodian, the trade is then allocated according to the Pre-Trade Allocation Report(s). The trade allocation process takes place on as timely a basis as possible, i.e. as an order is completed in full, or, in the case of a partially executed aggregated order, at the market's close when the average price can be calculated. Our Chief Operating Officer confirms the aggregated order and trade allocation based on the Trade Tickets and the Pre-Trade Allocation Report.
- If the aggregated order is not fully executed by the end of the trading day, allocation of the partially filled order will be completed on a pro-rata basis based on the Pre-Trade Allocation Report. Any deviation from the Pre-Trade Allocation Report will be performed only if all client accounts receive fair and equitable treatment and the reason for the different allocation is documented and approved in writing by our Chief Operating Officer no later than one hour after the opening of the markets on the trading day following the day the order is executed.
- Securities for aggregated orders will be deposited with the custodian of clients who participate in the aggregated order. We will not receive any additional compensation or remuneration as a result of any aggregated order.

*Lockwood Program Accounts.* Please consult the Lockwood Wrap Fee Program Brochure and, in the case of SMAs offered through the Lockwood Program, the applicable Portfolio Manager's Form ADV Part 2A disclosure brochure, for information concerning the trading procedures and practices applicable to Lockwood Program accounts.

### **Client-Directed Brokerage**

We generally maintain the authority to determine the broker or dealer to be used in making trades in discretionary client accounts. In some instances, however, clients may give direction to us to use a particular broker or dealer to execute transactions for their account or may direct that us to use a particular broker or dealer for a particular transaction. When we do not select the broker or dealer, the client and not us will be responsible for negotiating the commission rates and other terms of the brokerage arrangement. If you direct us to use a particular broker or dealer, you should be aware that you may not receive benefits available to other clients who do not direct brokerage within their accounts. For example, in instances in which you direct brokerage, your account may not be included in the aggregation of other client orders and, if so, you will not benefit from volume discounts on batch orders that may be available. Accordingly, if

you direct brokerage, you may pay higher commission costs and receive less favorable execution.

### **Non-Discretionary Accounts**

In the case of accounts over which we do not exercise investment discretion, trades for the client's account may not be made at the same time as aggregated trades for the client's discretionary accounts and, as a result, may not be made at the same price as our discretionary accounts.

## **Review of Accounts**

### **Account Review Procedures**

#### **Investment Management Accounts**

We review our investment management accounts at least once annually. The annual review is used to determine whether the investment approach and asset mix being used is consistent with the client's investment objectives, risk tolerance, cash flow needs, and any other special guidelines that may impact the client's investment allocations.

Occasionally, we perform reviews of investment management accounts in-between scheduled annual reviews when significant changes in the market occur or are anticipated or if we become aware of significant changes in the client's circumstances.

As part of our annual account review process, we contact our investment management clients to obtain updated information from the client and to discuss any changes in investment approach deemed appropriate, including in light of any changes in the client's circumstances.

In the case of our Separately Managed Accounts, including Legacy St. Johns Investment Management Accounts, annual reviews are conducted by the Regional Chief Investment Strategist, one of our Wealth Managers or one of our Investment Analysts.

#### **Lockwood Program Accounts**

In the case of SMAs offered through the Lockwood Program, the client's Consultant reviews changes in Portfolio Manager(s) requested by the client or instituted by Lockwood for client's account. In the case of Lockwood LIS and Lockwood LAAP, the client's Consultant reviews changes in the model portfolio(s) requested by the client or instituted by Lockwood for the client's account. In the case of Lockwood AFP, the client's Consultant reviews changes in model portfolio(s) requested by the client or instituted by Lockwood for the client's account and reviews any changes in the underlying investments requested by the client or that are recommended or instituted by Lockwood. The client's Consultant or another representative of ours will contact

the client at least once annually to inquire whether any of the client's financial information provided in connection with the Lockwood Programs, or client's investment objectives, have changed. In the event the client notifies us of any change in client's financial information or investment objectives, we will forward such information to Lockwood and the client's Consultant will work with the client in order to assist the client in determining whether the current Portfolio Manager(s) or model portfolio(s), as applicable, utilized for the client's account remain suitable and, if applicable, in determining the suitability for the client of any new Portfolio Manager(s) or model portfolio(s), as applicable.

#### SmartPath Program Accounts

For information concerning our account review procedures pertaining to SmartPath Program Accounts, please consult the applicable SmartPath Program Disclosure Brochure.

#### Financial Planning Accounts

**Note:** After March 1, 2013, we no longer provide financial planning services.

We do not provide ongoing financial planning services. Each financial plan requires a separate engagement between us and the client. Accordingly, we do not conduct ongoing or periodic reviews of the financial plans we prepare for clients.

## **Reports Provided to Clients**

*Separately Managed Accounts.* You will receive periodic statements from your designated custodian showing all transactions that occurred in your account during the period covered by the account statement, any fees paid by your account during the period and a list identifying all assets in your account at the end of the period. You will receive these periodic statements on a quarterly basis and for any month in which transactions occur in your account.

In addition to the periodic statements provided by your designated custodian, we will provide you quarterly written statements showing the each security owned (together with its cost and current market value as determined by your designated custodian), and performance data for the period covered by the statement. You should promptly and carefully review the statements provided by your designated custodian and the statements provided by us and, in addition, you should compare the statements provided by your designated custodian and the statements provided by us and promptly notify us in writing of any errors or discrepancies.

*SmartPath Program Accounts.* If you maintain a SmartPath Program account, please refer to the applicable SmartPath Program Disclosure Brochure for a description of the frequency and content of account statements that will be provided for your review.

*Lockwood Program Accounts.* If you maintain a Lockwood Program account, please refer to the Lockwood Wrap Fee Program Brochure for a description of the frequency and content of account statements that will be provided for your review.

## Client Referrals and Other Compensation

Under certain circumstances, our employees and employees of our affiliates may have the opportunity to refer clients to each other or to unaffiliated third parties. Such referrals may result in the receipt of a referral fee. All of these referral arrangements are conducted in accordance with applicable law and regulation, including Rule 206(4)-3 under the Investment Advisers Act of 1940 (the “Advisers Act”).

Below is a description of the referral arrangements that we or our employees may typically engage in:

*Referrals to Unaffiliated Money Managers.* Our investment adviser representatives may act as solicitors by referring clients to investment advisers who are not affiliated with us. Typically, our investment adviser representatives will receive a fee for referral of a client, in which case we will disclose to affected clients the nature of the solicitation arrangement and the amount of the fee.

*Solicitors Referring Investment Management Clients to BWS.* We maintain agreements with affiliated companies and individuals who are both our employees and employees of the affiliated company under which such individuals solicit investment management clients on our behalf. Under the terms of the agreements, the affiliated company (and not us) will pay the solicitors a fixed fee or an amount that is a stated percentage of the advisory services fees paid by the client to us over a designated period of time. As a condition to receiving referral compensation, each employee acting as solicitor is required to provide a written disclosure to prospective clients regarding the referral agreement. Under no circumstances will the payment of referral fees to an affiliated solicitors result in our clients incurring any additional fees or charges. We have the sole discretion to accept, or decline, any prospective client relationship referred by an affiliated solicitor.

*Interaffiliate Referral Programs.* Our registered investment adviser representatives may participate in a referral network among our affiliates, including BCIA, BBVA, BBVA Securities Inc. and Compass Bank. Under this referral network, our registered investment adviser representatives may receive referral compensation from our affiliates or from Compass Bank in the form of direct payment to the representative or indirect payment, such as the contribution toward fulfillment of the representative’s business development goals. The referral compensation paid to our registered



investment adviser representatives may vary dependent upon the product or service involved.

*Financial Planning Referrals.* [**Note:** After March 1, 2013, we no longer provide financial planning services.] In the case of our financial planning services, we do not charge additional fees for product implementation services provided by our representatives. However, if a client decides to purchase products recommended as part of a financial plan prepared by us, the client must establish relationships with one or more brokerage firms, insurance agencies and/or other vendors in order to complete the purchase of such products. The client may, but is not required to, utilize the services of our representatives who act as insurance agents of our insurance agency affiliate, BCIA, brokerage representatives of our broker-dealer affiliate, BBVA Securities Inc., or representatives of third-party providers of investment and insurance products. If the client determines to use our representatives who are also insurance agents, brokerage representatives or representatives of third-party product providers, our representatives and our affiliate's representatives will receive commissions, premiums or other compensation.

## Custody

Under the SEC's rules, an investment adviser who has the authority to deduct, or to cause the account custodian to deduct, the investment adviser's fee may be deemed to have custody of the account for certain purposes. We have the authority to calculate our applicable investment management fees and to instruct your account's custodian to deduct our investment management fees from your account and to remit the fees to us. As a result, we may be deemed to have custody of your accounts assets under the SEC's investment adviser custody rule (Rule 206(4)-2). Rule 206(4)-2 requires that we maintain the assets of our investment management clients with one or more "qualified custodians." You will direct that the assets of your investment management accounts be held by a third-party qualified custodian as follows:

- *Separately Managed Accounts.* Clients are encouraged to establish a custody relationship with one of a group of third-party custodians with which we have established satisfactory procedures and processes. Pre-approved custodians include Charles Schwab and Fidelity. Clients also are permitted, but not required, to designate our parent company, Compass Bank, as custodian.
- *SmartPath Program and Lockwood Program Accounts.* Clients participating in the SmartPath Program or in a Lockwood Program are required to establish custodian accounts with Pershing, which serves as the custodian and clearing agent for the SmartPath Program and the Lockwood Programs.

The designated qualified custodian holds all client account assets and provides written account statements to the client directly, at least quarterly, at the client's address of record. You should promptly and carefully review the account statements provided by the designated custodian. In addition to the account statements provided by the designated custodian, we provide the client with written quarterly performance reports. These performance reports may differ in format from the account statements you receive from the designated custodian, but the information concerning transactions, balances and holdings should be the same. We urge you to compare the account statements provided by the designated custodian and the performance reports provided by us and promptly notify us in writing if there are any errors or discrepancies.

## **Investment Discretion**

Generally, we accept full investment discretion over our clients' investment management accounts, including for Separately Managed Accounts. Prior to our exercise of investment discretion, the client must authorize us to exercise the authority to trade the assets in the client's account for purposes of implementation of our investment management of the account.

Our discretionary investment management clients are permitted to impose reasonable restrictions on securities, industries and sectors by providing us with written instructions at the time their advisory accounts are opened or at any time thereafter. We may reject the imposition of restrictions to the extent the restrictions are inconsistent with the types of portfolios or services we provide.

In some cases, including SMAs offered through the Lockwood Program, Lockwood LIS and Lockwood LAAP, we do not exercise investment discretion and instead provide investment recommendations. For Lockwood LIS and Lockwood LAAP, Lockwood is responsible for model portfolio maintenance. For SMAs offered through the Lockwood Program, Lockwood is responsible for Portfolio Manager due diligence. In addition, Lockwood exercises investment discretion over the client's assets under Lockwood LIS and the Lockwood LAAP. The designated Portfolio Manager or Portfolio Managers exercise investment discretion over the client's assets for SMAs offered through the Lockwood Program.

In addition, if a client has special needs and/or restrictions that require a portion of his portfolio to be held outside of our discretionary investment management accounts, a separate non-discretionary account will be opened to house those funds. Such funds will be managed in line with the special needs and/or restrictions and the account will incur an advisory fee.

If we do not exercise investment discretion, either you or a third party designated by you have full responsibility for investment decisions. Cash in the client's account may be invested in money market funds until such time as the client provides us with direction as to the investment of the assets. The client may withdraw or pledge account assets at any time.

Under Lockwood AFP, we will exercise limited discretion, if and as determined by us to be appropriate in light of the client's goals and financial circumstances known to us, to select

the investment vehicles for the model portfolio on behalf of the client without obtaining the client's prior approval. As Portfolio Manager for Lockwood AFP, Lockwood exercises investment discretion over the client's assets invested in this program.

## Voting Client Securities (i.e., Proxy Voting)

We recognize that proxy voting is an important right of shareholders and reasonable care and diligence must be undertaken to ensure that such rights are properly and timely exercised in those instances in which we have been delegated authority to vote proxies.

The level of discretion and authority that we exercise over proxy voting will depend on the nature of your account and the terms of your investment management agreement with us.

*Separately Managed Accounts (Non-ERISA).* In the case of Separately Managed accounts, we generally accept discretion to vote proxies on behalf of our clients. However, our clients may withhold this authority or place reasonable restrictions on our proxy voting authority. If the client retains the authority to vote proxies, the client's designated custodian will be responsible to forward proxies to the client.

*Accounts Subject to ERISA.* In the case of ERISA plan accounts in which we have been appointed investment manager, we will be responsible to vote proxies unless a fiduciary of the plan (other than us) has reserved the authority to vote proxies.

*Lockwood Program Accounts.* We do not vote proxies on behalf of our clients who participate in the Lockwood Program. Generally, clients who participate in the Lockwood Program are given the opportunity to retain the right to vote proxies or to delegate the power to vote proxies to the investment manager serving as the client's Portfolio Manager under the applicable Lockwood Program (including to Lockwood in the case of Lockwood LIS, Lockwood LAAP and Lockwood AFP). You should refer to the Lockwood Wrap Fee Program Brochure for additional information.

*SmartPath Program Accounts.* You should refer to the SmartPath Program Disclosure Brochure for information concerning proxy voting responsibilities and procedures pertaining to SmartPath Program accounts.

In those cases in which we exercise voting authority, one of our Investment Analysts will review each proxy voting matter. The Investment Analyst will determine if a conflict of interest exists between the interests of the client and our interests (including, for example, due to a relationship between us or our directors, officers, employees or

affiliates and an issuer of a security or the issuer's affiliates). If a material conflict of interest is identified, we will determine whether it is appropriate to disclose the conflict of interest to the client or to give the client the opportunity to vote the proxy directly, or both.

We have adopted written proxy voting policies and procedures to comply with the provisions of Rule 206(4)-6 under the Investment Advisers Act of 1940 (the "Advisers Act"). These policies and procedures are reasonably designed to ensure that, when exercising discretion over proxy voting, we vote client securities in the best interest of our clients. In general, we will vote in favor of routine corporate housekeeping proposals such as the election of directors and auditors absent known conflicts of interest. We will generally vote against proposals that cause board members to become entrenched or create unequal voting rights. In voting on proposals, we will consider the opinion of management of the company and the effect on management and shareholder value.

You may obtain copies of our proxy voting policies and procedures, including applicable voting guidelines, and records of how we have voted proxies affecting your account by calling us at 713-552-9277 or 904-399-0662.

## **Financial Information**

We do not serve as a custodian of client funds or securities, and do not require prepayment of fees of more than six months or more in advance. Accordingly, a balance sheet is not required to be provided with this Disclosure Brochure.

We do not have any financial impairment that will preclude us from meeting our contractual commitments to clients.

We have not been the subject of any bankruptcy petition at any time, including any time during the past ten years.

## **Requirements for State-Registered Advisers**

BWS is an SEC-Registered Adviser, not a State-Registered Adviser. As a result, this item is not applicable to us.