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**BBVA WEALTH SOLUTIONS, INC.**

Investment Adviser Wrap Fee Program Brochure  
FORM ADV, Part 2A, Appendix 1

**This wrap fee program brochure provides information about the qualifications and business practices of BBVA Wealth Solutions, Inc. If you have questions about the contents of this brochure, please contact us at 800-538-8152 and/or [bws@bbvawealthsolutions.com](mailto:bws@bbvawealthsolutions.com). The information in this brochure has not been approved or verified the United States Securities and Exchange Commission ("SEC") or by any state securities authority.**

**Additional information about BBVA Wealth Solutions, Inc. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**This wrap fee program brochure contains information concerning the following programs sponsored by BBVA Wealth Solutions, Inc.:**

**SmartPath<sup>®</sup> Diversified Portfolios  
SmartPath<sup>®</sup> Managers Portfolios**

**You should read and carefully consider the information contained in this brochure before retaining BBVA Wealth Solutions, Inc. to provide any of the services described in this brochure. BBVA Wealth Solutions, Inc. is a registered investment adviser with the SEC. Our registration as an investment adviser does not imply any level of skill or training.**

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## **Material Changes**

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

This “initial” filing of what is regarded as “The New Part 2A, Appendix 1” (i.e., Wrap Fee Program Brochure) of BBVA Wealth Solution, Inc.’s Form ADV. Previously, our wrap fee program brochure was called the Form ADV Part II, Schedule H (the “Old Schedule H”). As a result, this document, dated March 31, 2011 is brand new. This document was developed in response to new requirements adopted and imposed by the Securities and Exchange Commission (SEC) under the Investment Advisers Act of 1940 (IA Act). As a result, this Wrap Fee Program Brochure is substantially different from previous versions and includes disclosures not specifically required by the Old Schedule H.

As a result, this Wrap Fee Program Brochure should be considered materially new although you will recognize most of the disclosures as similar or identical to what you have read in the past.

### **Future Filings**

In future filings, this section of the Wrap Fee Program Brochure will address only those “material changes” that have been incorporated since the last delivery or posting of this document on the SEC’s public disclosure website (IAPD) [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

We may, at any time, update this Wrap Fee Program Brochure and either send you a copy or offer to send you a copy (either by electronic means (email) or in hard copy form).

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

If you would like another copy of this Wrap Fee Program Brochure, please download it from the SEC Website as indicated above or you may contact Pleshetta Loftin in the BBVA Wealth Solutions, Inc. Compliance Department, at 800-538-8152 or [bws@bbvawealthsolutions.com](mailto:bws@bbvawealthsolutions.com).

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## Services, Fees and Compensation

### Our Wrap Fee Programs

BBVA Wealth Solutions, Inc. (referred to below as the “Sponsor,” or as “we” or “us” or “our” as appropriate) is an investment adviser registered with the U.S. Securities and Exchange Commission (“SEC”). We provide various investment advisory services with respect to individually managed advisory accounts and portfolio management. This Brochure provides information regarding the following wrap fee programs (the “Programs”) sponsored and administered by us for our investment advisory clients:

- The SmartPath<sup>®</sup> Diversified Portfolios Program is a discretionary asset allocation program offering access to certain model portfolios (the “SmartPath Model Portfolios”) created by us that are comprised of mutual funds, exchanged-traded funds and similar pooled investment vehicles. Currently, clients may access six SmartPath Model Portfolios.
- The SmartPath<sup>®</sup> Managers Portfolios Program is a separately managed account program under which the client’s assets are invested in the SmartPath Core Portfolio, a combination of equity securities, equity exchange-traded funds and money market mutual funds (or other short-term investment vehicles).

Note: Prior to October 18, 2010, the SmartPath Core Portfolio Program was sponsored by St. Johns Investment Management Company, our affiliate. On October 18, 2010, St. Johns Investment Company was merged into us.

Pursuant to the Programs, your assets will be invested principally in a portfolio of securities selected by us Sponsor from time to time.

A portion of your portfolio may be invested in money market mutual funds or other short-term investment vehicles selected by us from time to time as representing an appropriate allocation of the client’s portfolio to “cash equivalents.”

With the assistance of our investment adviser representative (the “Financial Advisor”), you will be asked to complete a Personal Investment Profile (the “Investor Profile”). The Investor Profile will provide us with information concerning, among other things, your financial situation, retirement goals and investment risk tolerance. If we determine, based on the Investor Profile, that

participation in the Programs is appropriate for you, we will recommend one or more Programs and, if the SmartPath Diversified Portfolios Program is a recommended Program, one or more of the SmartPath Model Portfolios. It is your sole responsibility to determine whether to participate in the recommended Programs and, if applicable, whether to accept or reject our recommended SmartPath Model Portfolios. In making such determination, you should consider all of your assets, income and investments.

The Financial Advisor will also be a registered representative of our affiliate, BBVA Compass Investment Solutions, Inc. ("BCIS"), a registered broker-dealer. In addition, the Financial Advisor also may be a licensed insurance representative of another of our affiliates, BBVA Compass Insurance Agency, Inc. ("BCIA"), a licensed insurance agency. In some cases, the Financial Advisor, in his or her capacity as a registered representative of BCIS, may recommend mutual funds, variable annuities or other securities products other than those available through the Programs. Also, in his or her capacity as a licensed insurance agent of BCIA, the Financial Advisor may recommend fixed annuities or other insurance products. You should be aware that the Financial Advisor will receive compensation in connection with such recommendations.

We will receive compensation in the form of periodic fees based on a percentage of assets under management. Certain other fees, charges and expenses will apply

### **Our Advisory Services**

#### *SmartPath<sup>®</sup> Diversified Portfolios*

The SmartPath Diversified Portfolios is an asset allocation program offering the client the opportunity to receive personalized portfolio management services based on a SmartPath Diversified Portfolio maintained by us. The SmartPath Diversified Portfolios are comprised of mutual funds, exchange-traded funds ("ETFs") and similar pooled investment vehicles (collectively, "Funds") selected by our Diversified Portfolios Team. We will provide you assistance in selecting the appropriate SmartPath Diversified Portfolio, monitoring results and making ongoing investment management changes or adjustments, taking into account investment performance and any changes to your personal financial circumstances or goals. We provide investment advisory services, while BCIS and the Program Custodian (Pershing LLC) provide securities execution, custodial and other administrative services, all for a single Program Fee.

Currently, the following SmartPath Model Portfolios are available under the SmartPath Diversified Portfolios Program:

- Conservative -- This portfolio is designed for clients who desire preservation of capital and are comfortable with a low degree of potential volatility of the entire pool of assets. We seek to achieve this objective by allocating across a broad spectrum of mutual funds and exchange-traded funds.
- Moderately Conservative -- This portfolio is designed for clients who desire to maintain the purchasing power of their assets, but who are comfortable with a low level of risk. We seek to achieve this objective by allocating across a broad spectrum of mutual funds and exchange-traded funds.
- Moderate Income – This portfolio is designed for clients who desire income, and who are comfortable with a moderate level of risk. We seek to achieve this objective by allocating across a broad spectrum of mutual funds and exchange-traded funds that generate income, either from equities or fixed income securities.
- Moderate Growth – This portfolio is designed for clients who desire growth of assets with an anchor to volatility and the potential for a moderate level of income. We seek to achieve this objective by allocating across a broad spectrum of mutual funds and exchange-traded funds.
- Growth – This portfolio is designed for clients who desire growth of assets with a minimal emphasis on income. These clients may have a longer time horizon and are willing to accept greater short-term potential volatility in exchange for higher long-term potential returns. We seek to achieve this objective by allocating across a broad spectrum of mutual funds and exchange-traded funds.
- Aggressive Growth – This portfolio is designed for clients who are comfortable with a high degree of potential volatility in their portfolio in exchange for the long-term returns that are potentially higher than any of the other SmartPath Model Portfolios. We work to maximum capital appreciation by allocating across a broad spectrum of mutual funds and exchange-traded funds, which may have a high degree of risk.

We will establish a minimum and maximum weighting for equity, fixed income and cash equivalents for each model portfolio. See below under “The Types of Investments We Make – SmartPath Diversified Portfolios” for additional information concerning the types of investments that will be purchased for the SmartPath Model Portfolios.

You will grant us full investment discretion consistent with the objectives of the Program and your Program account. This will give us full authority, without your prior approval and without prior notice, to change the target allocations and the Funds and other assets comprising the respective SmartPath Model Portfolio and to buy and sell assets within your account to correspond to changes in the SmartPath Model. However, the SmartPath Model Portfolio or Portfolios in which your assets are invested will not be changed without your prior approval.

We also will have the discretionary authority to purchase, sell or exchange assets in order to rebalance the investments within your account to the extent necessary to maintain the target allocation of the SmartPath Model, taking into account changes in the market value of the securities or other investments, income, realized or unrealized gains and other factors and any minimum “tolerances” established by us from time to time for the SmartPath Model Portfolios (“Target Allocation Tolerances”). We will not be obligated to rebalance the investments within your account more frequently than quarterly or, in any event, unless the variance between the current allocation and the target allocations established for the Program exceed the applicable Target Allocation Tolerances.

In managing your account, we will not take into account the possible tax impact on your assets held under the Programs or elsewhere.

### *SmartPath<sup>®</sup> Managers Portfolios*

The SmartPath Managers Portfolios is a separately managed account program. Currently, the SmartPath Core Portfolio is available under the SmartPath Managers Portfolios Program. Under the SmartPath Core Portfolio, your assets are invested in predominantly in our Core Equity Model, which is a combination of equity securities, equity exchange-traded funds and money market mutual funds (or other short-term investment vehicles). Our Managers Portfolios Team selects and monitors the assets comprising the SmartPath Core Portfolio. We provide investment advisory services, while BCIS and the Program Custodian

provide securities execution, custodial and other administrative services, all for a single Program Fee.

We will not take into account the possible tax impact on your assets held under the Programs or elsewhere.

See below under “The Types of Investments We Make– SmartPath Core Portfolio” for additional information concerning the types of investments that will be purchased for the SmartPath Core Portfolio. The Core Model is a long-term strategy model managed to pursue long-term growth.

A small percentage of assets that may be invested in money market mutual funds or other short-term investment vehicles. Otherwise, your portfolio will be invested only in individual equity securities or in equity ETFs. As a result, your SmartPath Core Portfolio account, in and of itself, will not afford you the opportunity to achieve a portfolio that is diversified across asset classifications, and you should supplement your SmartPath Core Portfolio investments with other investments (in one or more of the SmartPath Model Portfolios or investments outside the Programs) that will provide appropriate levels of exposure to fixed income securities and other asset classifications.

You will grant us full investment discretion consistent with the objectives of the Program and your Program account. We will have full authority, without your prior approval and without prior notice to you, to change the target allocations and the securities and other assets comprising the Core Model and to buy and sell assets within your account to correspond to changes in the Core Model. We also will have the discretionary authority to purchase, sell or exchange assets in order to rebalance the investments within your account as necessary to maintain the target allocation of the Core Model we establish from time to time, taking into account changes in the market value of the securities or other investments, income, realized or unrealized gains and other factors and any minimum “tolerances” we establish from time to time (“Target Allocation Tolerances”). We will not be obligated to rebalance the investments within your account more frequently than quarterly or, in any event, unless the variance between the current allocation and the target allocations are in excess of the Target Allocation Tolerances we have established.

### **The Types of Investments We Make**

*SmartPath<sup>®</sup> Diversified Portfolios*



The SmartPath Diversified Portfolios Program provides clients personalized portfolio management services based on a SmartPath Model Portfolio maintained by us. The SmartPath Model Portfolios are comprised of Funds (as defined above) selected by our Diversified Portfolios Team.

We seek to broadly diversify the SmartPath Model Portfolios across various factors, including assets classes, styles, geographies, sectors and industries. The Moderately Conservative, Moderate Income, Moderate Growth, Growth and Aggressive Growth portfolios may invest in a combination of global and domestic equity Funds, global and domestic fixed income Funds, commodity Funds and alternative Funds, in each case within predetermined bands of minimum and maximum weightings for equity, fixed income and cash equivalent assets, respectively. The Conservative portfolio will invest in a combination of money market mutual funds, short-duration fixed income Funds, gold Funds and similar Funds, and will not invest in equity Funds or other equity securities.

#### Investment Risks Presented by the SmartPath Model Portfolios

- 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.
- Model 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.

### *SmartPath<sup>®</sup> Managers Portfolios*

The SmartPath Managers Portfolios Program provides clients personalized portfolio management services through the SmartPath Core Portfolio maintained by us. Your portfolio will be invested predominantly in the “Core Equity Securities,” a portfolio of equity securities and equity ETFs selected by us from time to time for our “Core Model.” The Core Model is a long-term strategy model managed to pursue long-term growth. Typically the Core Model will have between 40 - 60 individual equities and equity ETFs at a given time. We select investments for the Core Model primarily from large capitalization U.S. companies spread across ten (10) designated industry sectors. Typically, a portion of your portfolio will be invested in “cash equivalents” in the form of money market mutual funds or other short-term investment vehicles selected by us. Otherwise, your portfolio will be invested only in equity securities (either directly or through equity ETFs).

We select equity securities and equity ETFs for the Core Model on the basis of specific overview portfolio attributes that we identify. Typically, the attributes we consider focus on historic growth, profitability and valuation, and take into account independent research obtained by us from various outside sources.

### Investment Risks Presented by the SmartPath Managers Portfolios

- Because your portfolio will primarily hold individual stocks, the Core Model is subject to stock-selection risk and may either outperform or underperform the overall stock market.
- The Core Model will invest almost exclusively in individual equity securities and equity ETFs. 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.

- The Core 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*

Investments in Funds are subject to various fees, charges and expenses which will be borne by you and that are in addition to the Program Fee. See below under “The Fees We Charge.”

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 NAV. 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. 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.

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 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 by either replicating the securities in the index or by holding a representative sample of the securities in the index. Typically, the expenses of an ETF are lower than the expenses of actively managed mutual funds, which generally have higher management fees and brokerage expenses. However, investors who buy and sell ETF shares in the secondary market generally pay brokerage commissions in connection with those transactions.

Equity-based ETFs are subject to risks similar to those of stocks. Fixed-income ETFs 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. ETFs that invest in foreign (non-U.S.) securities have unique and greater risks than ETFs that invest only in U.S. domestic securities.

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.

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.*

#### *Prospectuses and Other Disclosure Documents*

Because we exercise full investment discretion, you will delegate to us any and all rights you have to receive prospectuses, offering circulars, offering memoranda, disclosure statements and other disclosure documents relating to any securities, Funds or other investment products purchased by for you Program account. You may receive copies of the disclosure documents we receive by contacting us.

## **The Fees We Charge**

### *Program Fee*

We will receive periodic fees based on a percentage of assets under management (the “Program Fee”) at the rates described below for each Program.

#### Program Fee

<u>Total Assets</u>	<u>Fees</u>
\$1,000,000 and below	1.50%
Above \$1,000,000	Negotiable*

\* If client’s initial investment in the Program exceeds \$1,000,000, and under certain other circumstances, the Program Fee will be negotiable. The Program Fee also will be negotiable in the event the total market value of client’s assets in the client’s Program accounts and client’s assets in other wrap programs offered by Sponsor from time to time (the “Combined Balances”) exceeds \$1,000,000. In the event the assets in the client’s Program accounts or, if applicable, client’s Combined Balances, fall below \$1,000,000 due to the withdrawal of assets by client, the Program Fee shall be the greater of 1.50% or the previously negotiated fee rate unless and until client restores the client’s Program accounts or, if applicable, the Combined Balances to not less than \$1,000,000. Assets in accounts maintained by client with the Sponsor, or any of the Sponsor’s affiliates, other than assets in the client’s Program accounts and in other accounts under other wrap program accounts offered by Sponsor, will not be taken into account in calculating the \$1,000,000 threshold.

Under certain circumstances (including, but not limited to those described above), we will negotiate the Program Fee or may waive a portion of the Program Fee for promotional purposes.

We and our affiliate, BCIS, will designate a clearing brokerage firm to act as custodian for client assets held under the Programs (the “Program Custodian”). Currently, Pershing LLC, member FINRA and SIPC, serves as Program Custodian. BCIS acts as introducing broker for Pershing LLC. By participating in one of the Programs, you agree that custody of your Program assets will be held by the Program Custodian as custodian and that securities transactions within your Program account will be executed through the Program Custodian, as clearing broker. We reserve the right, however, to execute transactions through a broker-dealer other than the Program Custodian when the transaction cannot

be executed through the Program Custodian due to regulatory or other constraints.

Except as noted below, a single wrap fee (i.e., the Program Fee) includes and encompasses all our asset allocation and investment management services, as well as all brokerage commissions and other transaction costs for transactions executed through the Program Custodian on an agency basis, all monitoring and reporting services and all custody services associated with participation in the Programs. The Program Custodian's compensation will be paid out of the Program Fee or separately by us. However, you will incur certain additional charges and expenses as described below.

### *Fee Billing*

The Program Fee will be payable quarterly in advance and will be based on the market value of all assets in your Program account as of the close of business on the last business day of the preceding calendar quarter (the "Valuation Date"). If we commence management of your account on a day other than the first business day of a calendar quarter, the Valuation Date for the partial quarter will be the close of business on the last business day of such calendar quarter. In that case, we will not charge the Program Fee for the partial quarter in advance and, instead, will charge the fee in arrears at the same time we charge the Program Fee for the next succeeding calendar quarter.

Under the terms of the Investment Management Agreement you sign with us, you will authorize and direct the Program Custodian to automatically deduct the Program Fee from the assets in your Program account when due as instructed by us or BCIS on our behalf). The payment of the Program Fee will be reflected on the next account statement sent to you by the Program Custodian. Once the Program Custodian deducts the full amount of a periodic Program Fee from your Program account, your responsibility for payment of the deducted amounts will be satisfied.

In our discretion, a portion of the assets of your Program accounts will be held in liquid investments or cash to cover the payment of fees and Fund redemption fees, if any.

The assets in your Program accounts that are invested in shares of Funds, including money market mutual funds and/or other short-term investment vehicles, will be included in calculating the value of the assets of your accounts for purposes of computing the Program Fee. Those same assets also will be

subject to advisory fee, other charges and operating expenses applicable to such Funds.

If you open your Program account with securities previously purchased through the BCIS or our representative, BCIS or our representative may already have received commissions on the purchase. Similarly, if you open a Program account with cash proceeds from the sale of securities through BCIS or our representative, the BCIS or our representative may have already received commissions of the sales.

If you or we terminate our Investment Management Agreement under the Program, we will refund to you the pro rata amount of any Program Fees that you prepaid from the date of termination through the end of the billing period.

#### *Charges and Expenses Not Covered by Program Fees*

Certain Securities Transaction Charges and Expenses. The Program Fee will not include, and you will separately incur and be responsible for, fees and charges associated with securities transactions that may be imposed by regulatory authorities, ADR agency processing fees, electronic fund and wire transfer fees, SEC and exchange fees and transfer taxes, and any other charges imposed by law. Non-standard services fees incurred as a result of special request from the client, such as wiring funds or overnight mailing services, will be an expense of the your Program account and may be deducted when incurred.

Certain Brokerage Commissions Are Not Covered. The Program Fee will cover the costs of brokerage commissions and other transaction fees executed through the Program Custodian on an agency basis. However, all other brokerage commissions and transaction costs will not be covered by the Program Fee and will be paid from the assets of your Program account, including the following:

- brokerage commissions on transactions effected through any broker or dealer other than the Program Custodian;
- dealer mark-ups, mark-downs and “spreads” (whether charged by BCIS, Program Custodian or any other broker-dealer for acting as principal; and
- any brokerage commissions or other charges, including any contingent deferred sales charges (“CDSC”), imposed upon the liquidation of “in-kind”



assets that are transferred into client's Program account and which we (in our discretion) determine to liquidate.

Mutual Fund, ETF and Similar Commissions and Expenses. Typically, we will be able to purchase and sale mutual funds purchased for your Program accounts without the payment of a front end load or sales charge or a contingent load or sales charge, including CDSC. Nonetheless, your Program account typically will incur a commission in connection with the purchase or sale of ETFs, but those commissions will be paid out of the Program Fee without additional cost to you. All or a portion of the ETF commission may be paid to our affiliate, BCIS.

In some instances, Funds may impose other fees (described in the applicable prospectus or other disclosure document for the Fund) in connection with the exchange of fund shares or in connection with the redemption of Fund shares prior to the Fund's designated minimum holding period ("short-term redemption fees"). Any such exchange fees or short-term redemption fees will be borne by you and will be paid out of the assets of your Program account. Exchange fees and redemption fees may be incurred in connection with the periodic, routine reallocation and rebalancing of the assets of your Program account.

Also, all Funds (including load mutual funds purchased at NAV, without front-end or contingent loads or sales charges to the client's Program account and money market mutual funds used for investment of cash balances) will have ongoing expenses that will be paid out of Fund assets and will impact the return received by your account. Specifically, Funds will be subject to various fees, charges and expenses of the fund/investment vehicle or their sponsors, managers or distributors, including management fees, distribution expenses, custody fees, transfer agency fees, administration fees and similar fees and expenses. All such Fund fees, charges and expenses will be incurred by your Program account and will not be paid out of the Program Fee. A detailed explanation of these Fund fees and expenses is contained in each Fund's prospectus or other disclosure document. We will provide clients a copy of applicable Fund prospectus or other disclosure document upon request.

#### *Fund Investments Included in Calculation of Program Fees*

Assets of your Program account that are invested in shares of Funds, including money market mutual funds and/or other short-term investment vehicles, will be included in calculating the value of the assets of your Program account for



purposes of computing the Program Fee. The same assets also will be subject to advisory fee, other charges and operating expenses applicable to such Funds.

#### *Disclosures Regarding Fee Rates*

You should be aware that the fees we charge for your participation in the Program may be higher or lower than those charged by others in the industry. You may be able to obtain the same or similar services from other advisers at lower or higher rates. In addition, you may be able to obtain some or all of the types of services available through us on an unbundled basis through other firms and, depending on the circumstances, the total amount of the separately paid fees may be lower or higher than the our annual fees under the Programs. Also note the Program Fee will be applicable to securities transferred into your Program account, even if you previously paid a commission or fee when purchasing those securities. Accordingly, you should consider whether it is appropriate to transfer such securities into your Program account.

#### *Our Representatives Compensation*

Our representatives who recommend a Program to you will receive compensation as a result of your participation in a Program. See below under “Additional Information – Client Referrals and Other Compensation.” This compensation may be more than our representative would receive in the event you did not participate in the Programs and instead obtained other services offered by us or with other advisers. As a result, our representatives have a financial incentive to recommend our wrap fee programs over other programs and services offered by us or others.

#### *Changes in Our Fee Schedules*

We may modify the Fee Schedule applicable to any Program at any time upon written notice to clients who will be impacted by the change.

## **Account Requirements and Types of Clients**

### **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

### **Requirements and Conditions to Establish an Account With Us**

#### *Minimum Investment*

The minimum investment amount to establish a SmartPath Diversified Portfolios account is \$50,000 per SmartPath Model. The minimum investment required to open a SmartPath Managers Portfolios (SmartPath Core Portfolio) account is \$50,000. The minimum investment amount will be negotiable in our discretion. The minimum investment must be in a form acceptable to us and Program Custodian.

#### *Required Account Documentation*

In order to participate in a Program, you must establish one or more accounts with the Program Custodian and appoint us as investment manager and grant us limited trading authority over the assets in your Program account for purposes of the applicable Program. A client's assets that are invested in a single SmartPath Model Portfolio or solely in the SmartPath Core Portfolio will open a single Program account. Clients with asset invested in both the SmartPath Core Portfolio and in one or more SmartPath Model Portfolios must establish separate Program accounts for the SmartPath Core Portfolio and for each SmartPath Model Portfolio.

As a condition to participating in a Program, you will be required to execute, in addition to other documents, an Investment Management Agreement appointing us as discretionary investment adviser and complete an Investor Profile. A single Investment Management Agreement will cover each of your Program accounts. BCIS acts as introducing broker for the Program Custodian (Pershing LLC) in connection with the Programs. Unless you have already set up a brokerage account with Pershing LLC through BCIS, you will also need to execute the typical account opening documents required by BCIS. You also will need to execute a document notifying the Program Custodian of the limited trading authority granted to us in connection with your Program accounts and agreeing to indemnify the Program Custodian for actions it takes in reliance on our trading instructions. The Investment Management Agreement, Investor Profile and other documents required to be executed, completed or delivered by the client in connection with the Programs are referred to below as the “Program Documentation.”

## Portfolio Manager Selection and Evaluation

### Methods of Analysis and Sources of Information

Our advice to wrap fee Program participants focuses on the potential for long-term and short-term growth and/or income associated with a variety of securities including equity securities.

In the case of the SmartPath Diversified Portfolios, our Diversified Portfolios Team will have responsibility for day-to-day oversight and securities selection and in the case of the SmartPath Managers Portfolios, our Managers Portfolios Team will have responsibility for day-to-day oversight and securities selection. The overall investment policies of the Programs and the activities of the Diversified Portfolios Team and the Managers Portfolios Team will be overseen and supervised by the Sponsor's Investment Policy Committee (the "IPC").

#### *SmartPath Diversified Portfolios*

We are solely responsible for the selection of the Funds for the SmartPath Diversified Portfolios and for the asset allocation among Funds and asset classifications within each of the model portfolios/investment objectives. However, each of the Funds comprising the SmartPath Diversified Portfolios is managed by a third-party adviser or manager (collectively, the "Fund Managers") that are not affiliated with us.

The Diversified Portfolios Team uses a four-step process in constructing and maintaining the Model Portfolios consisting of (a) strategic asset allocation, (b) tactical model selections, (c) Fund selection and implementation, and (d) ongoing monitoring and reallocation within the Model Portfolios.

Strategic Asset Allocation. The Diversified Portfolios Team uses a variety of internal and external information sources to form a strategic view on economic, financial, and political conditions that could affect the domestic and global investment landscape. Factors taken into account include growth prospects, business cycle analysis, real estate analysis and inflation analysis.

Tactical Model Selections. The Diversified Portfolios Team creates objective-based portfolios with unique asset allocation characteristics and volatility parameters unique to the Model Portfolio's benchmark index or indices. Because portfolio risk is driven by the correlation of the underlying assets of the portfolio, risk management is executed mainly at the portfolio level.

Volatility is managed within the Model Portfolios through diversification. Factors that are taken into account in assessing the equity markets include economic influences, industry influences and relative valuations, while factors taken into account in accessing the fixed income markets include interest rates, credit spreads, cash flows and relative valuations.

Fund Selections. The Diversified Portfolios Team selects Funds based on its assessment of the combination of Funds that will most effectively and efficiently held achieve the Model Portfolio's objective. The selection of Funds employs a research methodology consisting of analysis of statistical data related to the risk/return tradeoff, taking into the Fund's behavior through various market cycles. The process is complemented by a review of the Fund company, Fund managers/management teams and their philosophies.

Monitoring and Reallocation. The Diversified Portfolio Team monitors the behavior of the Funds comprising the Model Portfolios and considers implementation of changes in the Funds or the allocation among Funds as needed in order to restore the Model Portfolios to their long-term strategic asset allocation and desired risk parameters.

Sources used by the Diversified Portfolios Team include concepts from Modern Portfolio Theory, historical investment performance information calculated by the Funds or provided by other independent sources, Fund prospectuses and periodic reports filed with the SEC, third-party research materials, and general asset allocation risk/reward information.

### *SmartPath Managers Portfolios*

We are solely responsible for the selection of the individual securities for the Core Model and, therefore, we serve as the portfolio manager in connection with the SmartPath Core Portfolio Program. In managing the "Core Model," the Sponsor uses a number of information sources about the economy, markets and businesses to facilitate the management process. The Core Model is a stock specific portfolio subject to sector weighing constraints. We use a four factor approach in analyzing, selecting and monitoring the Core Model Equities and currently utilize information from various sources, including research purchased from various independent sources, research available from brokerage and investment banking firms, and various periodicals and subscription services. We use these ancillary sources 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, we compare the score of each potential new entrant against the score of other possible new entrants. Overall, our aim is 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.

### **Performance Calculation and Information**

We obtain Fund performance from readily available databases maintained by the Funds or by independent sources. We do not calculate Fund performance or guarantee its accuracy.

In the case of the SmartPath Diversified Portfolios, we (or a vendor selected by us) use historical performance information obtained from the Funds purchased for the Model Portfolios or from independent sources and our records to calculate time-weighted total returns for each of the Model Portfolios. Where permitted by law, the historical returns of the respective Model Portfolios may be provided to clients and qualifying prospective clients. The performance of an individual client's SmartPath Managers Portfolio account also will be impacted by any restrictions which the client imposes on the management of the client's Program account. **Past performance is not indicative of or a guarantee of future results.**

Certain sophisticated investors considering participation in the SmartPath Managers Portfolio Program may be provided the hypothetical performance of the Core Model over certain historical periods in one-on-one presentations. Prior to October 18, 2010, the Core Model was maintained, and accounts managed on the basis of the Core Model were managed by, St. Johns Investment Management Company and not by us. The hypothetical performance of the Core Model does not reflect actual trading of client assets and does not take into account the Program Fee and other charges and expenses associated with the Program. The performance of an individual client's SmartPath Managers Portfolio account also will be impacted by any restrictions which the client imposes on the management of the client's Program account. Actual performance will vary and cannot be predicted from hypothetical results.

The actual performance of each client's Program account is reported to the client quarterly on a time-weighted return basis. **Past performance is not indicative of or a guarantee of future results.**

## **Client Information Provided to Portfolio Managers**

Under the Programs, we do not utilize the services of outside portfolio managers. Therefore, we do not provide information regarding our clients to portfolio managers. In some cases, we invest our client's assets into mutual funds and ETFs, but we do not provide any information concerning our clients to the managers of such mutual funds or ETFs.



## **Client Contact With Portfolio Managers**

Under the Programs, we do not utilize the services of outside portfolio managers. Therefore, our clients will not have contact with outside portfolio managers pursuant to the Programs. In some cases, we invest our client's assets into mutual funds and ETFs, but our clients generally will not have direct contact with the managers of such mutual funds or ETFs. We do not restrict such access, however.

In connection with our investment management services, our clients have access to our Financial Advisors and other representatives at any time on reasonable notice.

## **Additional Information**

### **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**

BCIS is a registered broker dealer with the Securities and Exchange Commission and is a member of FINRA. BCIS, as introducing broker, maintains clearing arrangements with Pershing, LLC, a BNY Securities Group company which is not affiliated with us, whereby Pershing clears securities transactions on a fully disclosed basis. As described above, BCIS will serve as introducing broker, and Pershing will serve as clearing broker and custodian, for the Program accounts. We have entered into a service agreement with BCIS to address various operational issues and relative responsibilities in connection with the Programs. Under the service agreement, we and BCIS, respectively, agree to indemnify the other party for certain losses, liabilities, claims and expenses. The service agreement may be terminated by either BCIS or us at any time upon notice to the other.

Based upon the similarity of investments among client accounts having similar investment objectives and the fact that we may purchase securities for more than one account simultaneously, and the possible appearance of similarity in the treatment of clients, the accounts of all Program clients are handled under the following basic conditions designed to prevent pooling of assets and or the management of accounts on a de facto pooled basis resulting in the existence of an investment company. Each client's securities are held in nominee name only for ministerial purposes and each client's account is maintained as a separate account. The client's beneficial interest in a security does not represent an undivided interest in all the securities held by a clearing broker, but rather represents a direct and beneficial interest in the securities in the account.

Further, each client retains any and all rights afforded under the federal securities laws to proceed directly against the issuer of any underlying security in the client's Program account. Further, each client under a Program may withdraw, hypothecate, vote, or pledge securities in the client's account upon

written notice to us, and each client has the authority to impose reasonable restrictions on the management of the client's Program account. We have the right to reject any restrictions that the Sponsor determines are unreasonable, including any restrictions that are inconsistent with the requirements and purposes of the applicable Program.

### **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 832-204-1676.

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

Our Financial Advisor will also be a registered representative of our affiliate, BCIS, a registered broker-dealer, and may be a licensed insurance representative of our affiliate, BCIA, a licensed insurance agency. In some cases, the Financial Advisor, in his or her capacity as a registered representative of BCIS, may recommend to the client mutual funds, variable annuities or other securities products other than those available through the Programs. In addition, in some cases, the Financial Advisor, in his or her capacity as a licensed insurance agent of BCIA, may recommend to the client fixed annuities or other insurance products. The Financial Advisor will receive compensation in connection with such recommendations.

At times, our interest or the interest of our related persons may not coincide with the interest of a client’s account; however, at no time will we or any related person receive an added benefit or advantage over the clients with respect to these transactions. We will maintain a record of personal securities transactions. We have adopted policies and procedures reasonably designed to detect and deter insider trading. In addition, we have adopted a “Code of Ethics,” which is available to clients or prospective clients upon request. See below under “Other Disclosure Items - - Code of Ethics.”

We are a wholly owned, direct subsidiary of Compass Bank, the lead bank subsidiary of Compass Bancshares, Inc., an Alabama 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 municipal security underwritten, placed or distributed by Compass Bank. In addition, our affiliate, BBVA Securities, Inc., is a registered broker-dealer that 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.

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 fee 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 Compass Investment Solutions, Inc. acted as introducing broker in setting up your account with Pershing, BBVA Compass Investment Solutions, Inc. will be paid a portion of the fees, commissions and other charges imposed by Pershing.
- If you open your Program account with securities previously purchased through an introducing broker (including BCIS), or one or 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 Program account with cash proceeds from the sale of securities through an introducing broker (including BCIS) or our representative, the introducing broker or our representative, or both, may have already received commissions of the sale.
- If BCIS acts as introducing broker in connection with establishing your custody account with Pershing, BCIS will receive commissions if we determine to purchase or sell ETFs for your account.

Our Program account clients have the option of obtaining the investment products we recommend through brokers or other agents that are not affiliated with us.

## **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 investment adviser representatives who are also registered representatives of BBVA Compass Investment Solutions, Inc. and who act as the client liaison for clients participating in the SmartPath Program will not be considered to be Access Persons because they will not have access to nonpublic information regarding client purchases and sales of securities,, make recommendations to clients concerning securities purchases or sales, or have access to nonpublic information concerning such recommendations.

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.

## **Review of Accounts**

### *Frequency of Reviews*

We will review all information relating to the performance of our clients’ Program accounts on an as needed basis and will determine compliance with the clients’ written investment policy and attributes of Program performance.

To ensure the account's investments are in keeping with the client's investment objectives, we will contact the client at least annually to determine whether the client's financial situation and investment objectives have changed and to give the client the opportunity to impose reasonable restrictions on the management of the client's Program account.

#### *Account Valuation Methods*

The value of securities owned by the client will be determined by the Program Custodian in accordance with the Program Custodian's typical procedures. There is no guarantee that any valuations provided by the Program Custodian, or obtained by the Program Custodian from other sources, will be accurate. We and BCIS are not be responsible for the valuation of assets of the client's Program account or for any errors by the Program Custodian in the calculation of the values of the assets of the client's Program account, for any inaccuracy in any values obtained by the Program Custodian from other sources, or for the unavailability of values for some assets.

#### *Client Reports*

The Program Custodian will provide to you periodic statements showing all transactions occurring in your Program account during the period covered by the account statement, any fees paid by the account during the period and a list identifying all assets in the account at the end of the period. Periodic statements will be provided by the Program Custodian on a quarterly basis, and also for any month in which transactions occur in the client's Program account. In the Program Documentation, you will authorize and direct the Program Custodian to provide us copies of all periodic statements and other reports that the Program Custodian sends to the client.

In the Program Documentation, the client agrees to waive the receipt of contemporaneous written trade confirmations related to transactions within the client's Program account and agree that the periodic statements provided by Program Custodian will be in lieu of individual trade confirmations.

In addition to the periodic statements provided by the Program Custodian, we will provide each client participating in a Program with quarterly written statements of the assets in the client's Program account, each security owned (together with its cost and current market value), and performance data for the period covered by the statement.



You should promptly and carefully review compare the statements you receive from the Program Custodian and the statements you receive from us and promptly notify us or the Program Custodian if you notice any discrepancies.

The client will be given the opportunity to authorize the Program Custodian to deliver periodic statements and other communications relating to client's Program account by electronic means, in which case the client will not receive paper copies of any periodic statements or other communications that are provided electronically. The client will have the right to withdraw the client's consent to electronic delivery at any time.

Year-end summaries of dividends and interest received (IRS 1099-DIV and 1099-INT) are mailed to all taxable account clients by the Program Custodian.

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

#### *Solicitor and Referral Arrangements*

The Sponsor maintains various arrangements with affiliated persons under which such persons are paid cash referral compensation in connection with the referral of clients who open Program accounts with the Sponsor. These solicitation arrangements, which will be maintained by the Sponsor in compliance with Rule 206(4)-3 of the Investment Advisers Act (the "Cash Solicitation Rule"), are described briefly below. The Sponsor has the sole discretion in accepting or declining potential clients. Any persons or entities serving as solicitor for the Sponsor, other than the Sponsor's investment adviser representatives, are prohibited from making investment recommendations or giving investment advice to prospective clients while acting on behalf of the Sponsor.

The amount of the referral compensation paid to the solicitor will be disclosed to affected clients, and under no circumstances will the compensation be paid to such solicitors for providing referrals result in any additional fees or charges to the client being referred.

#### *Compensation of Our Investment Adviser Representatives*

Investment adviser representatives of the Sponsor, including persons who are also registered representatives of BCIS and employees of Compass Bank, will receive compensation in connection with the opening and maintenance of Program accounts, including all or a portion of the Sponsor's Program Fee. In addition, it should be noted that:

- Investment adviser representatives of the Sponsor may also be registered representatives of BCIS and/or employees of Compass Bank and may receive referral or other compensation in connection with services provided to the Sponsor's clients by BCIS, Compass Bank or other affiliates.
- Investment adviser representatives of the Sponsor may recommend to their clients the services of BCIS, an affiliated broker-dealer. BCIS provides securities brokerage services on a retail basis and BCIS and investment adviser representatives of the Sponsor, in their capacity as registered representatives of BCIS, will receive compensation in connection with securities transactions effected on behalf of clients of the Sponsor.

#### *Others*

The Sponsor maintains certain solicitation arrangements under the Cash Solicitation Rule with certain affiliated persons who are not investment adviser representatives of the Sponsor and with certain unaffiliated third parties. Persons and entities serving as solicitors for the Sponsor under these solicitation arrangements are eligible, subject to certain conditions and requirements, to receive referral compensation in connection with the referral of certain non-wrap accounts, but those solicitation arrangements are not applicable to the Programs or other wrap accounts offered by the Sponsor.

### **Financial Information**

We do not serve as a custodian of client funds or securities, and do not require prepayment of fees of more than \$1,200 per client, and 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.

### **Custody and Brokerage**

#### *Program Custodian and Clearing Broker*

Pursuant to the Program Documentation, clients participating in a Program will appoint BCIS as introducing broker for purposes of the applicable Program and the Program Custodian as the custodian for the client's Program assets and as

the clearing broker for transactions within the client's Program account. Custody of client's Program account assets will be maintained with the Program Custodian and in no event will the Sponsor or BCIS have custody of any assets of the account. Under the client's Investment Management Agreement, the client will authorize BCIS and us to give the Program Custodian instructions for the purchase, sale, conversion, exchange or retention of any asset in the client's Program account, but solely in connection with the conduct by us of trading in securities in accordance with the provisions of the client's Investment Management Agreement.

The client's Program account will be carried by Program Custodian. BCIS will serve as introducing broker with respect to the client's Program account. Under the Program Documentation, the client will direct BCIS and us to execute all securities transactions within the client's Program account through Program Custodian, as clearing broker. The Program Custodian will act exclusively as agent in securities transactions for the client's account and, by directing securities transactions for the client's Program account to the Program Custodian, the client may be forgoing better execution of client's securities transactions from other broker-dealers that are not participating in the applicable Program. Notwithstanding the foregoing, we reserve the right to choose to effect transactions through broker-dealers other than the Program Custodian when the transaction cannot be effected through the Program Custodian due to regulatory or other constraints.

#### *Fund Trades*

Funds purchased for a client's SmartPath Diversified Portfolio account generally will not have front-end or deferred sales charges (or, if the Funds have such sales charges they will be purchased for the client's Program account at net asset value (NAV), without front-end or contingent sales charges).

Typically, a commission will be incurred in connection with the purchase or sale of ETFs. Such commissions will be paid from the Program Fee or otherwise will be paid by the Sponsor. All or a portion of the commission may be paid to BCIS, an affiliate of the Sponsor.

Funds are subject to additional fees, charges and expenses. See above under "Services, Fees and Compensation."

#### *Equity Trade Aggregation and Allocation*

We make decisions to recommend, purchase, sell or hold securities for its client accounts (including non-Program accounts) based on the specific investment objectives, guidelines, restrictions and circumstances of each account. The Sponsor's Core Model is available both to clients who participate in the SmartPath Managers Portfolios and to investment management clients of the Sponsor who do not participate in the SmartPath Managers Portfolios. Therefore, a conflict of interest exists in the allocation of equity trades between among clients maintaining SmartPath Managers Portfolio accounts and among clients maintaining SmartPath Managers Portfolio accounts and clients whose portfolios contain the Core Model Equities outside the SmartPath Managers Portfolios Program. It is our policy 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 its other clients.

When the Sponsor believes it is desirable, appropriate and feasible to purchase or sell the same equity security for a number of the Sponsor's advisory clients (whether or not the clients participate in a Program) at the same time, the Sponsor may aggregate its clients' orders ("Aggregated 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.

Before entering an aggregated order, a Pre-Trade Allocation Report is prepared by the Portfolio Analyst for each custodian holding the assets of the Sponsor's advisory clients (including the Program Custodian and the custodians for the Sponsor's advisory clients who do not participate in the 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 on a rotational basis.

For example, if on a particular trading day clients of the Sponsor have assets held by Schwab, Compass Bank, Fidelity, the Program Custodian (for Program accounts) 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 Programs, 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 Sponsor's clients. Where it is anticipated that a particular security will be both bought and sold for client accounts contemporaneously, the Sponsor 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 the Sponsor's advisory clients who direct trades within their accounts will also be included in the trade rotation.

Although the Sponsor 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 the Sponsor.

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. The Sponsor's Chief Operating Officer (or his or her designee) 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 the Sponsor's Chief Operating Officer (or his or her designee) 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. The Sponsor will not receive any additional compensation or remuneration as a result of any aggregated order.

The Sponsor 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.

### *Securities Transaction Confirmations*

Pursuant to the Program Documentation, confirmations for transactions will be provided to the Sponsor, the client appoints the Sponsor as the client's agent for purposes of receipt and review of such confirmations, and the requests that the Program Custodian not furnish the client with contemporaneous written trade confirmations related to transactions within the Program account and agrees that the periodic statements provided by the Program Custodian will be in lieu of individual trade confirmations. The client may withdraw the waiver of contemporaneous written trade confirmations upon reasonable advance written notice to the Sponsor, BCIS and the Program Custodian and, in addition, may receive copies of past confirmations upon written request at any time without charge. The client will not pay a different fee based upon the decision to waive contemporaneous written trade confirmations and agreeing to such waiver is not a condition to entering into, or participation in, the Programs.

## **Conflicts of Interest**

### *Overview*

The Sponsor, BCIS and their affiliates perform, among other activities, research, brokerage and investment advisory services for clients other than those participating in the Programs. The Sponsor may give advice and take action in the performance of its duties to such clients (including those who may also be participants in the Programs) which may differ from advice given, or in the timing and nature of action taken, with respect to a client participating in a Program. In addition, the Sponsor may give advice and take action in the performance of its duties to one or more of its clients that differs from advice given or action taken for another client at or about the same time.

The Sponsor, its affiliates and any officer, director, stockholder, employee or any member of their families may have an interest in the securities purchased for client's Program accounts from time to time effect.

Certain of the Sponsor's principal executive officers are also principal executive officers of the parent company, Compass Bank. Employees of the Sponsor who

are investment adviser representatives of the Sponsor and act as financial advisors to clients under a Program are, in many instances, also registered representatives of BCIS.

#### *Trading Conflicts of Interest*

SmartPath Diversified Portfolios Accounts. The SmartPath Model Portfolios are available both to clients who participate in the SmartPath Diversified Portfolios Program and to investment management clients of the Sponsor who do not participate in the SmartPath Diversified Portfolios Program. It is anticipated that all mutual fund trades will be executed at the applicable mutual fund's NAV at the time of execution of the purchase or sale transaction. However, a conflict of interest exists to the extent that mutual fund trades arising from changes in SmartPath Model Portfolios may be executed at different times or at different prices in the case of clients maintaining certain SmartPath Diversified Portfolios accounts and clients whose portfolios contain the same SmartPath Model Portfolios outside the SmartPath Diversified Portfolios Program. In addition, ETFs are priced continuously by the market and trades in ETFs may not occur at the ETF's NAV. Accordingly, a conflict of interest also exists to the extent that ETF trades arising from changes in SmartPath Model Portfolios may be executed at different times or at different prices in the case of clients maintaining certain SmartPath Diversified Portfolios accounts and clients whose portfolios contain the same SmartPath Model Portfolios outside the SmartPath Diversified Portfolios Program. It is the Sponsor's policy 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 its other clients.

SmartPath Managers Portfolios Accounts. The Sponsor makes decisions to recommend, purchase, sell or hold securities for its client accounts (including non-Program accounts) based on the specific investment objectives, guidelines, restrictions and circumstances of each account. The Sponsor's Core Model is available both to clients who participate in the SmartPath Managers Portfolios and to investment management clients of the Sponsor who do not participate in the SmartPath Managers Portfolios. Therefore, a conflict of interest exists in the allocation of equity trades between among clients maintaining SmartPath Managers Portfolio accounts and among clients maintaining SmartPath Managers Portfolio accounts and clients whose portfolios contain the Core Model Equities outside the SmartPath Managers Portfolios Program. It is the Sponsor's policy 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 its other clients.

### **Proxies and Other Legal Notices**

We will not vote, or give any advice about how to vote, proxies for securities in the client's Program account and, in the event of any matter in which the holder of any security or other interest held in the client's Program account is permitted to vote or grant proxies, the client shall be solely responsible for determining whether or not to vote or grant and regarding the manner in which to vote such securities or other interests. If the client's Program account is or is owned by a pension or other employee benefit plan governed by the Employee Retirement Security Act of 1974 ("ERISA"), as a condition to the establishment of a Program account we will be expressly denied the authority to vote any proxies for securities held in the client's Program account pursuant to the Program Documentation.

### **Class Action Lawsuits**

If the Program Custodian receives notice of a lawsuit or related matter affecting a security held in the client's Program account, the Program Custodian will forward such notice to the client. The client will be responsible to determine eligibility to submit a claim with respect to all lawsuits and other wise to determine all actions to be taken or not taken in connection with any such lawsuits, and we, the Program Custodian and BCIS shall have no obligation to take any such actions or to advise the client concerning such actions.



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

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