

# **FTB ADVISORS, INC. PART 2A FORM ADV FIRM BROCHURE**

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## **PENSION CONSULTING / OTHER INVESTMENT ADVISORY SERVICES**

This brochure provides information about qualifications and business practices of FTB Advisors, Inc. If you have any questions about this brochure, contact us at (901) 818-6000.

**The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. Additional information about FTB Advisors, Inc. is available on the Securities and Exchange Commission website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

References to FTB Advisors, Inc. as a “registered investment advisor” or as being “registered” does not imply a certain level of skill or training.

**(Item 2) SUMMARY OF MATERIAL CHANGES**

In this “Summary of Material Changes” section, we discuss only the material changes made to Part 2A Form ADV – Firm Brochure since the updates of the Firm Brochure on March 30, 2012, and June 20, 2012. On June 3, 2013, First Tennessee Advisory Services, Inc. (“FTAS”) merged with and into its affiliated broker-dealer, First Tennessee Brokerage, Inc., and the combined entity was renamed FTB Advisors, Inc. FTB Advisors, Inc. provides the investment management services described in this Brochure as successor-in-interest to FTAS.

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**(Item 4)      ADVISORY BUSINESS**

FTB Advisors, Inc. is the successor-in-interest to First Tennessee Advisory Services, Inc. (“FTAS”). FTAS was organized in 2007 as a wholly owned subsidiary of First Tennessee Bank National Association (“FTB”). FTB is a wholly owned subsidiary of First Horizon National Corporation (“FHNC”), a financial services holding company. FHNC is a publically held company. On June 3, 2013, FTAS merged with and into its affiliated broker-dealer, First Tennessee Brokerage, Inc., and the combined entity was renamed FTB Advisors, Inc. (Hereinafter, “FTB Advisors, Inc.” may be referred to as “we”, “us”, the “firm” or the “Advisor”.)

Investment management services provided by the Advisor include the following:

- Managed Account Solutions Program (“MAS Program”) including the following account options:
  - § FTB Advisors Model Portfolio Accounts
  - § Adviser Model Managed Accounts
  - § Adviser Directed Unified Managed Accounts
  - § Separately Managed Accounts
  - § Envestnet/PMC Model Accounts
- Pension Consulting Services
- Other Investment Advisory Services

The MAS Program is a wrap account program which includes the various investment management account options identified above. The Advisor is the MAS Program sponsor and Envestnet Asset Management, Inc. and its affiliates (“Envestnet”) provide certain investment management and administrative services for the MAS Program. MAS Program clients receive a separate wrap fee brochure which describes the MAS Program account options and other important information.

Pension Consulting Services are provided to pension and savings plans including ERISA plans, government plans, and church plans. Pension Consulting Services may include:

- recommendations of investment managers for management of plan assets
- recommendations of registered investment companies to be used as investment options for the plan
- recommendation of plan service providers
- ongoing review and reporting concerning selected investment managers, investment options, and/or service providers
- employee education and plan enrollment services
- benchmarking service to help determine plan costs vs. that of peer firms

The Advisor may also provide discretionary investment management services to a plan.

Other Investment Advisory Services are provided on a discretionary or non-discretionary basis. Unless otherwise specified in the client agreement, these services involve providing ongoing investment advice. Services for a client may include a review of the current investment portfolio and a consultation to understand current financial situation, investment objectives and recommendations for the client to consider. The Advisor may develop an investment policy for the client or review an existing investment policy in order to recommend an appropriate asset allocation. In addition, the Advisor may select securities or managers, monitor portfolio risk adjusted performance, and provide performance reporting and economic updates. Where the Advisor recommends investment managers for an account, the arrangement may be provided through a sub-manager relationship with the Advisor, or the client may enter into a separate investment management agreement with the investment manager. Under a sub-manager arrangement, the Advisor has authority to terminate a sub-manager and to replace the current sub-managers with another sub-manager.

Other Investment Advisory Services and Pension Consulting Services are tailored to meet the specific needs of a client. These needs are often outlined in a written investment policy statement for the account or identified in the agreement between the client and the Advisor for the services. A client may impose restrictions on investing in certain types of securities.

The Advisor provides continuous and regular supervisory or management services on both a discretionary and non-discretionary basis. Total assets managed on a discretionary basis as of December 31, 2012 were \$2,967,626,274. Total assets managed on a non-discretionary basis were \$448,401,566 as of December 31, 2012.

#### **(Item 5) FEES AND COMPENSATION**

Certain Other Investment Advisory Services and Pension Consulting Services may be provided for a fixed fee and may include a one time review of an existing Plan or portfolio, and subsequent recommendations concerning investment options or plan service provider changes. This fee is stated in the agreement between the Client and the Advisor, and is negotiable. The factors considered in determining the fee include the estimated time involved, scope of the services requested and resources utilized to deliver services. Fixed consulting fees are typically billed to client upon completion of the services.

Services that include ongoing or periodic monitoring review and/or performance reporting of investment managers or investment options and meetings with the Plan's responsible party(ies) are provided for an annual fee based upon the market value of the plan or account assets. Annual fees for these services range from .25% to 1.25%, but are negotiable. The factors considered in determining the fee include the number of managers involved, total plan or account assets, and resources required to provide the services. These fees are billed quarterly in arrears, and are calculated by the Advisor based upon the market value of the plan or account assets as of the last business day of the quarter. The market value of the plan or account assets for purposes of calculating the fee is determined by the custodian or as otherwise agreed to by the client and the Advisor in the services agreement.

Fees for Pension Consulting Services are billed directly to the Client. Fees for Other Investment Advisory Services are typically deducted from the custodian account.

Other Charges and Expenses. The fees charged for investment management services do not cover certain charges associated with securities transactions in clients' accounts. See the "Brokerage Practices" section of this Brochure. The fees also do not include the internal charges and fees that may be imposed by mutual funds and closed-end funds, unit investment trusts, exchange-traded funds ("ETF") or real estate investment trusts. Mutual fund fees include operating expenses, management fees, and may include redemption fees, 12b-1 fees and other fees and expenses. Information regarding these mutual fund fees may be found in the appropriate prospectus or offering document or other regulatory filings.

The fees do not cover custodial fees that may be charged to clients by the custodian. A custodian may charge a minimum account fee. Clients also may be charged for specific account services, such as transfers, and for other optional services elected by clients. Fees do not include account service fees such as individual retirement account trustee or custodian fees, tax-qualified retirement plan account fees or termination fees for retirement accounts.

#### **(Item 6) PERFORMANCE BASED FEES**

The Advisor does not charge any performance based fees which are based on a share of capital gains or capital appreciation of the assets of a client.

#### **(Item 7) TYPES OF CLIENTS**

The Advisor's investment advisory services are available to individuals, high net worth individuals, financial institutions, pension and profit sharing plans, charitable organizations, corporations, or other business entities, trusts or estates.

The minimum market value of an account to obtain Other Investment Advisory Services is \$100,000.

#### **(Item 8) METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

Investment Philosophy. The Advisor's investment philosophy broadly states our belief in capital markets that are long term efficient. For that reason, we generally advocate that long term investors develop strategic asset allocations and stick with them. We therefore maintain our series of investment strategies designed to help our clients obtain a diversified efficient investment solution around their goals, objectives and risk tolerance. It is subject to relevant constraints as determined by the client and may include liquidity needs, tax considerations, timing of expected cash flow events as well as legal considerations. The firm's philosophy seeks to diversify investments across asset classes, asset locations and management styles with no biases in any areas. The Advisor believes that most investment programs should begin with a comprehensive needs analysis and risk budgeting assessment.

Methods of Analysis – Investment Strategies. The Advisor’s Investment Committee (“IC”) sets the broad investment policy based on the firm’s investment philosophy and target markets. Areas considered may include asset sub-class selection, creation and maintenance of approved and prohibited investments, purchase and sale guidelines, and rebalancing guidelines. The Advisor has identified five factors that it believes, in the aggregate offer a framework with which to monitor and assess portfolio construction, security selection, strategic and tactical allocation, and evolving trends. Those factors are the global macroeconomic background; the trend of the market; liquidity conditions; market psychology; and, fundamental valuations.

In light of the five factor framework the IC will review annually historical asset class returns, volatilities and correlation figures. It will also review expected asset class returns from a variety of resources. Based on this review, our tactical asset sub-class allocations and holdings may be modified. Taken collectively, the Advisor believes that these five factors can help to inform tactical decisions within the confines of a long term strategic asset allocation. The Advisor does not advocate market timing for the sake of short term gains and losses, but is respectful of the market environment and the risks it creates for different asset class and sub-class ownership.

Methods of Analysis – Product Selection. To apply proper diversification, the Advisor considers various investment categories including separate account managers, no-load mutual funds, individual large capitalization core stocks, individual investment grade and government bonds, ETFs, as well as hybrid mutual funds, structured equity funds, real assets, hedge products and other alternative investment products.

The Advisor reviews investments using the most recent economic, market and behavioral data as well as both internal and external sources for macro and micro-economic input, sector, industry, and individual security analysis. We also utilize third party software program(s) that offer a database of mutual funds, ETFs, and separate account managers including performance, style, and risk adjusted return measures. This data is used in the ongoing analysis of portfolios and their holdings. All information sources and programs utilized are recognized as leading industry tools with clearly defined peer groups and style defined indices.

Initial Selection. The Advisor’s analysis includes both quantitative and qualitative criteria. Initial cuts are made to ensure experienced managers with a proven performance record, stable operations, and expenses in line with industry averages. A second series of evaluation measures reviews performance against relevant benchmarks and peer groups including annualized, calendar year, and rolling returns. A style analysis is performed to help determine a history of consistency in the fund’s investment philosophy. Risk adjusted return measures based on Modern Portfolio Theory are also reviewed for reasonableness relative to peers. The Advisor’s proprietary method of analysis includes a mathematical assessment as well as the experienced judgment of the IC. Qualitative analysis may include such areas as firm history, financial stability, service standards, regulatory infractions, and manager turnover.

Ongoing Oversight. As part of the regular due diligence, the Advisor, through its Portfolio Management Team, will review the factors listed above to identify the development of unfavorable trends over time. The IC uses a four category rating system for list funds: “Buy”, “Watch”, “Sell”, and “Hold”. If an unfavorable trend has been identified, the IC will initiate an

analysis to determine what actions, if any, need to be taken. The IC will consider opportunity costs and tax situations before initiating such changes.

Fixed Income. The Advisor may construct customized portfolios with individual bonds utilizing broad guidelines adopted by the IC. The fixed income process is focused on issue selection. Depending on whether the portfolio is taxable securities or municipal bonds, the Advisor will select securities that meet the quality and maturity criteria established for the individual client portfolio. The firm may also use ETFs, mutual funds, or individual preferred securities and other diversifying securities meeting quality and liquidity requirements. Additional criteria may be established for each client based on the portfolio goals, risk profile and tax bracket. The structure of the portfolio may be adjusted from time to time based on the evaluation of current and expected interest rates taking into account economic conditions such as monetary policy, fiscal policy, economic strength, and inflation. The combination of economic conditions and client specific requirements is incorporated into a plan which specifies target duration, average maturity and quality profile.

The Advisor will monitor the credit quality of account holdings utilizing a third party provider. Significant deterioration of the credit quality will trigger the firm to assess the long term implications and respond accordingly. The Advisor may also, where appropriate, make adjustments to the portfolio structure based on changes in market conditions or client circumstances.

Equities. Individual equity securities are selected based on their ability to generate cash flow return on investment in excess of their weighted average cost of capital adjusted by their inflation adjusted capital base. The research and analysis utilized to rank the securities is provided through a third party vendor.

In addition to the general risks of investing outlined below, investing in individual equities introduces idiosyncratic, or specific company risks to an investor's portfolio. The portfolios are reviewed on an ongoing basis to determine if quantitative and/or qualitative changes warrant selling a stock from the portfolio holdings.

Risk of Loss. Investing in securities involves risk of loss of principal that a client should be prepared to bear. Other risks that a portfolio may carry include:

- Underperforming a benchmark
- Reinvestment risk
- Inflation risk
- Not meeting financial objectives such as, retirement income and college financing

Equity investments can experience volatility with market fluctuations. While diversification may mitigate these risks, extreme markets can often result in a loss of principal. Typically, large capitalization stocks are viewed as less volatile than smaller and mid capitalization stocks. A large portfolio of stocks such as in a mutual fund or ETF is also viewed as less volatile than holding a few stocks. Regardless, in a volatile market if a sale of these securities is necessitated by an unforeseen event, a loss of principal can result.



Fixed Income investments include a wide range of securities with an equally wide range of risk levels. Risk in fixed income securities comes from several sources including default risk, interest rate risk and inflation risk.

Default risk is the risk that the issuer of the bond does not make good on its obligation to pay periodic interest payments or principal at maturity. Obligations of investment grade corporations (and state and local governments) are not free from default risk, but that risk is viewed as being lower. Below investment grade bonds, i.e. junk bonds are considered speculative in nature.

Interest Rate Risk. Fixed Income securities also have interest rate risk; their market prices fluctuate up and down inversely with the prevailing interest rates. Notes and bonds purchased when interest rates are low can lose market value if interest rates rise prior to their maturity dates. As with stocks, if a sale of the bond is necessitated by an unforeseen event, a loss of principal can result. The longer the maturity of the bond held, the greater the interest rate risk.

Inflation Risk. The inflation risk associated with bonds is two fold: the potential loss of purchasing power plus the potential for inflation to result in higher market rates of interest. As explained above, this causes the market price of a bond to decline.

Some ways a portfolio manager can help to mitigate bond risks include use of high credit quality bonds, investing in bonds with short to intermediate terms and keeping turnover rates low.

Alternative securities often carry liquidity risk as well as the risk of loss of principal. Liquidity risk is an inability to sell the security in a timely fashion should essential cash needs arise.

#### **(Item 9) DISCIPLINARY INFORMATION**

Registered investment advisers are required to disclose all material facts regarding any disciplinary events that would be material to a client's evaluation of the Advisor and its investment staff or the integrity of the Advisor's management. The Advisor has no information applicable to this Item.

#### **(Item 10) OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

All executive officers and members of the IC are registered representatives of FTB Advisors, Inc. The Advisor provides advisory services to FTB customers at FTB financial center locations. FTB or its holding company provides certain support services to the Advisor, including accounting, payroll, legal and administration services.

All employees of the Advisor who provide investment management services to clients ("Financial Advisors") are also registered representatives of FTB Advisors, Inc., and may also provide brokerage products and services to their clients. Compensation arrangements and fees for brokerage products and services (which are typically transaction based) are available through FTB Advisors, Inc. Expenses associated with such brokerage products and services available through Advisor are different from compensation arrangements and fees (which are typically

asset based) and expenses associated with investment management products and services available through the Advisor. Therefore, a Financial Advisor may have an incentive to recommend one type of product or service over another type of product or service. The Advisor manages this potential conflict by conducting initial and periodic account reviews to determine that products and services recommended to clients are suitable for the client's investment needs. FTB Advisors, Inc. may provide brokerage services and custody services for certain client accounts through its clearing arrangement with National Financial Services LLC ("NFS"). When a client directs its brokerage services to FTB Advisors, Inc., we disclose to the client in the account opening documentation that by directing brokerage to FTB Advisors, Inc., the client forgoes any benefits in price or quality of execution which may be obtained when a manager for an advisory account has discretion to select the executing broker for account transactions. FTB Advisors, Inc. regularly monitors execution price and quality of trades for its accounts.

FTB may provide custody services for client accounts through its trust division. A client executes a separate agreement with FTB for custody services and is charged a separate custody fee.

See also the "Brokerage Practices" section of this Brochure.

**(Item 11) CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

The Advisor has adopted a Code of Ethics (the "Code") which establishes standards of fiduciary conduct for its employees, including standards that apply to personal securities transactions. The Code requires compliance with policies concerning use and disclosure of non-public information and maintaining the confidentiality of customer information.

The Code also requires that certain officers of the Advisor and employees who provide investment advice to customers to report their securities transactions quarterly to a designated compliance officer and to provide an annual holdings report as well. These persons also may not acquire securities in an IPO or private placement without obtaining prior approval from the designated compliance officer; may not execute a transaction for their own account until any orders for the same security for an advisory client's account has been executed or withdrawn; may not recommend a security transaction for an advisory account without disclosing certain personal interest in such securities; and must receive prior approval from the designated compliance officer to serve as a director of a publicly traded company.

The Advisor will provide a copy of its Code of Ethics to any client or prospective client upon request.

**(Item 12) BROKERAGE PRACTICES**

FTB Advisors, Inc. does not have any arrangements with broker-dealers whereby it obtains research or other products or services in connection with client securities transactions.

The Advisor does not select broker-dealers to execute individual equity security transactions. The Advisor requests that a client direct brokerage for individual equity transactions to a specified broker-dealer. We may recommend that a client use FTB Advisors, Inc. for execution and custody services where the account will be invested in individual equity securities. When a client directs brokerage to FTB Advisors, Inc. or another broker-dealer, we disclose to the client that the client may not receive benefits in price or quality of execution which may be obtained when the investment adviser has discretion to select the execution broker.

FTB, the parent company of the Advisor, has entered into an arrangement whereby it obtains research products and services from a broker-dealer in connection with securities transactions executed by the broker-dealer for fiduciary accounts of FTB. Those products and services include subscriptions or other access to research on equity securities, mutual funds, and credit markets, securities pricing, market indices and other economic and securities market research. These research services are made available to the Advisor by FTB. The Advisor uses these services in managing all client accounts, including fiduciary accounts that the Advisor manages on behalf of the Bank.

When a client utilizes one or more separate account managers, the Advisor may recommend that the client use FTB as custodian. The relationship between FTB and the Advisor is disclosed to the client.

The Advisor does not aggregate orders for client accounts.

### **(Item 13) REVIEW OF ACCOUNTS**

Account Reviews. All accounts are reviewed prior to account opening to confirm that recommendations for the account are consistent with the client's investment objectives and risk tolerance. Advisory account models and holdings are monitored on an ongoing basis. Significant market events and credit conditions are all factored into the analysis. Mutual funds are reviewed monthly and Sub-Managers are reviewed at least annually by the IC. If a fund or manager is removed from the Advisor's approved list, the portfolio manager is notified and will make appropriate adjustments to the account. At least annually, the portfolio manager meets with his/her clients to determine if any changes have taken place which require a change in the client's investment policy. If so, the asset allocation and investment products will be reviewed to determine if changes are appropriate.

For Pension Consulting Services, mutual funds and managers are reviewed in accordance with the consulting agreement with the client.

Reports. For Pension Consulting Services accounts, reports will be provided as described in the consulting agreement with the client.

For Other Investment Advisory Services, all clients receive a quarterly performance report from the account custodian with a breakdown of investments held, gains, losses, and current market value. Clients may receive a quarterly performance report from the Advisor if such report is described in the investment management services agreement with the client.

**(Item 14) CLIENT REFERRALS**

FTB may pay a referral fee to FTB personnel for referring a particular advisory client to the Advisor. The Advisor may pay a referral fee to FTB personnel for referring a particular client to the Advisor. In accordance with the Investment Advisers Act of 1940, the Advisor may pay a referral fee to third-parties who enter into a written agreement with the Advisor to refer or introduce particular advisory clients to the Advisor.

**(Item 15) CUSTODY**

FTB, the parent company of the Advisor, may provide custody services to our clients who obtain investment management services. Under the SEC rules, we are deemed to have custody of accounts held by FTB. All accounts custodied at FTB will receive account statements, at least quarterly, from FTB. Clients should carefully review these account statements. We do not provide a separate statement for these accounts.

**(Item 16) INVESTMENT DISCRETION**

If a client requests that the Advisor have authority to execute transactions for a client account without the client's prior approval or to hire or terminate an investment manager without the client's prior approval, this authority will be obtained in writing from the client.

**(Item 17) VOTING CLIENT SECURITIES**

Clients receive proxies or other solicitations directly from the custodian or a transfer agent. The Advisor generally does not provide advice to clients as to how to vote such proxies. The Advisor may, on a case-by-case basis, agree to vote proxies related to mutual fund holdings. We are not aware of any relationships with a mutual fund company which would create a conflict of interest. Clients can contact the President, Advisory Services for more information about voting proxies for mutual fund holdings.

**(Item 18) FINANCIAL INFORMATION**

Registered investment advisers are required in this item to provide clients with certain financial information or disclosures about their financial condition. The Advisor has no financial commitments that impair its ability to meet contractual and fiduciary obligations to clients, and has not been the subject of a bankruptcy proceeding.