



## **Form ADV Firm Brochure**

### **HighTower Advisors, LLC**

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**May 1, 2012**

HighTowers Advisors, LLC is an SEC-registered investment adviser. Registration as a registered investment adviser does not imply that a certain level or skill or training has been obtained. This brochure provides information about the qualifications and business practices of HighTower Advisors, LLC. If you have any questions about the contents of this brochure, please contact us at 312-962-3800 and/or [compliance@hightoweradvisors.com](mailto:compliance@hightoweradvisors.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority. Additional information about HighTower Advisors, LLC also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)

## **ITEM 2 - MATERIAL CHANGES**

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This “Summary of Material Changes” describes material changes made to the last annual updated filing of HighTower’s Brochure. The most recent updated filing of this Brochure was March 31, 2012. The material changes to this Brochure, dated May 1, 2012 are as follows:

- The Firm’s AUM in item 4.D has increased to \$10,128,476,043;
- Item 14.A – Economic benefits received from Non-Clients for providing Services to Clients.
  - HighTower had previously indicated in this item that it was a participant in “soft dollar” arrangements. Upon further review it is inaccurate to describe the Firm’s receipt of a non-economic benefit (research or other services) in this instance. Please refer to Section 12 “Soft Dollars” for a further explanation of the services received.
- In the March 31, 2011 filing, the Firm had included the “Privacy Policy Notice for HighTower,” as Item 19. This section has been deleted in its entirety. The HighTower Privacy Policy is available at the Firm’s website, [www.hightoweradvisors.com](http://www.hightoweradvisors.com).

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## ITEM 4 - ADVISORY BUSINESS

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HighTower Advisors, LLC, a Delaware limited liability company ("HighTower" or "we" or the "firm"), is an investment adviser registered with the United States Securities and Exchange Commission (SEC) under the Investment Advisers Act of 1940 (the "Advisers Act"). Please note that registration with the SEC does not imply a certain level of skill or training.

This section of the brochure explains HighTower's investment consulting, discretionary advisory, financial planning services and managed accounts and wrap programs.

### **A. Ownership Structure**

HighTower Advisors, LLC is a wholly-owned subsidiary of HighTower Holding, LLC. HighTower Holding, LLC is a private company.

### **B. General Description of Advisory Firm**

HighTower was established in September 2008, and provides investment consulting, discretionary advisory and financial planning services to high net-worth and ultra high net-worth clients, as well as institutions, ERISA and other retirement accounts, and certain Pension/Taft-Hartley plans. Please refer to Item 7 for further information on the types of clients to which we provide our investment advisory services.

#### **1. Investment Consulting/Wealth Management**

HighTower furnishes investment advice through investment consulting. The Advisor will collect financial and pertinent information from the Client in order to identify objectives and goals for the engagement. The Advisor will use information provided by the Client to identify an appropriate strategy. The Advisor will consult, advise, and provide ancillary services that are of limited scope, and specifically outlined within Consulting Agreement. Clients do not grant HighTower any trading authority, HighTower just makes recommendations based on information obtained. For more information on consulting please refer to your Consulting and Limited Advisory Agreement.

#### **2. Discretionary Advisory**

HighTower provides discretionary advisory services to clients, tailored to the client's financial situation, goals and investment objectives. HighTower is mindful of each client's financial situation, ensuring that clients' investment objectives are met on an ongoing basis, and that investment recommendations are suitable and comply with any client-imposed investment restrictions.

After review and assessment of clients' needs, portfolios are designed and managed using a mix of investments, including stocks, bonds, mutual funds (stock funds, bond funds and other asset classes), options, warrants, real estate investment trusts ("REITs"), exchange-traded funds ("ETFs"), alternative investments, and other securities as chosen by the Advisor. For some clients it may be determined that an investment portfolio consisting primarily or exclusively of mutual funds is most appropriate. In these situations, a portfolio of no-load or load-waived mutual funds will be created, and client assets will be allocated among various mutual funds, while taking into consideration the goals and objectives of the client and the appropriate overall management style of the funds.

#### **3. Financial Planning**

HighTower may also provide financial planning to clients. Financial planning services are offered on a comprehensive or a la carte (limited focus) basis. Financial plans may encompass all or some of the following areas of financial concern to the client:

- Estate Planning Goals
- Retirement Planning
- Education Planning
- Insurance Planning/Risk Management
- Investments
- Asset Allocation Review and Recommendations
- Cash management and certain treasury services

Appropriate information is obtained through personal interviews (including a discussion of current financial status, future goals and attitude towards risk), and the review of related documents and data supplied by the client. A written financial plan may be prepared and provided. The implementation of financial plan recommendations is entirely at the discretion of the client. Financial plans are not limited in any way to products or services provided by any particular company. However, in general, only products and services that HighTower is able to provide will be offered.

#### 4. Managed Account Platforms and Wrap Programs

HighTower offers discretionary advisory through an unbundled or bundled service. Through the unbundled service, clients pay separately for the different aspects of the investment advice. They pay separately for HighTower's advisory fee, custodial fees and the managed account platforms described below – if applicable.

Clients can also pay a bundled service, also called a wrap program. Within this wrap program clients give HighTower full discretion to invest the client's asset as they deem prudent. The client will pay an annual fee that covers all account fees (HighTower advisory fee, custodial fees, money manager fees – if applicable). The managed account platforms described below are covered under the wrap program.

If suitable, referrals to affiliated and unaffiliated money managers may be made through HighTower's approved managed account platforms and wrap programs. Money managers are third-party companies that HighTower utilizes to manage some client assets with money managers – specialized services can place a portion or all assets of a client with. Money managers employ people with various expertises ranging from research and selection of investment options to monitoring the assets and deciding when to sell them. The money manager has the fiduciary duty to choose and manage investments prudently for his or her clients, including developing an appropriate investment strategy, and buying and selling securities to meet those goals.

These programs allow clients to obtain portfolio management services that typically have higher minimum account sizes off of the platform and/or outside of the program. The money managers selected under these programs will have discretion to determine the securities they will buy and sell within the account(s), subject to restrictions imposed by the client. HighTower has no ability to affect the trading decisions of the money managers. HighTower can only choose to invest with the money manager or not. Depending upon the platform or program, HighTower will have the discretion to replace Money Managers available via the platform or program. HighTower retains the right to replace (i.e., "hire or fire") available money managers on behalf of clients for those client accounts that have given discretionary authority to HighTower. Accounts that have discretionary authority allow HighTower to choose any money manager approved without getting approval from the client before investing with the manager.

Each money manager maintains a separate disclosure document that outlines their investment vehicles, which will be provided to clients by HighTower. In addition, HighTower and third-parties administering wrap fee programs maintain additional disclosure documents that specifically pertain to the wrap fee programs that they administer, which will be provided as applicable to clients by HighTower's. Clients should carefully review these additional disclosure documents, for important and specific details including, among other things, fees, experience, investment objectives and risk guidelines, and disclosure of the money manager's potential conflicts of interest.

1. To establish an account, HighTower will: Assist clients in the identification of investment needs and objectives
2. Develop an investment policy and/or asset allocation strategy designed to meet the client's objectives.
3. Recommend specific investment style and asset allocation strategies
4. Evaluate money managers and investment vehicles meeting style and allocation criteria
5. Negotiate fees to be paid to money managers
6. Assist in identification of appropriate money managers and investment vehicles suitable to the client's goals.
7. Client opens account with appropriate custodian by completing:
  - a. Custodian account opening documents
  - b. Custodian new account features documents (if necessary)
  - c. HighTower Client Advisory Agreement (Negotiate fee paid to HighTower)
8. Deposit or transfer assets into account
9. Engage selected money managers and investment vehicles on behalf of the client
10. Perform ongoing monitoring and due diligence of individual money manager's performance and management.
11. Review the client's account for adherence to objectives, policy guidelines, and/or asset allocation on a periodic basis.
12. Recommend reallocation among Money Managers or styles within the program.
13. Terminate the money management relationship between client and money managers, if necessary.
14. Perform reporting to the client regarding the performance of their account.

## 5. Pre-retirement planning

Services to Clients under Employee Retirement Income Security Act of 1974 ("ERISA")

We provide the following services to ERISA clients:

- Limited education and enrollment assistance.
- Draft, review and refinement of the Investment Policy Statement (IPS) to ensure the client's (the plan sponsor and/or trustee) objectives and risk tolerances have been met.
- Working with the trustees of the plan to determine the appropriate mutual funds and/or securities for plan participant investments meet the criteria outlined by the plan.
- Meeting with the trustees of the plan to review the performance of the mutual funds and other securities selected by the trustees. Recommendations will be made to the trustees, who then have the sole authority to determine the course of action to take on behalf of the plan.
- Periodic reporting as agreed upon.

HighTower may or may not have discretionary authority to trade plan assets, but does not have control over the plan assets or control over the administration of the plan. Where HighTower does not have discretion over the plan assets, advice is provided to the plan in the form of recommendations to the trustees. HighTower's role may be as advisor or consultant to the plan trustees. The consulting services provided are limited to those assets specifically identified in the client agreement.

## 6. Restrictions

In all cases, clients will have the opportunity to place reasonable restrictions on the types of investments that will be made on their behalf. HighTower reserves the right to not accept, or to terminate an account if HighTower believes the restrictions imposed are not reasonable, or prohibit effective management of the account. HighTower is not obligated to implement other investment selections if it believes such investments are inconsistent with a client's risk tolerance or HighTower's management style.

All Client advisory agreements may be terminated upon written notification by either party at any time. Upon termination, clients will receive refunds of the prepaid and unearned advisory fees (prorated for the balance of the quarter, if needed). If services have been provided, and are therefore due and payable, clients will receive an invoice with the amount due. Any transactional or custodial charges levied by the custodian after the termination of HighTower's advisory agreement will be the client's responsibility and not the responsibility of HighTower. HighTower has no obligation to refund these fees to its clients.

## D. Assets Under Management

As of March 31, 2012, HighTower had \$10,128,476,043 in assets under management, the vast majority of which is managed on a discretionary basis. HighTower calculated this amount by compiling advisory account balances from accounts at the below mentioned custodians.

## E. Custodians

HighTower offers multiple services to clients, and currently uses the qualified custodians Fidelity/Institutional Wealth Services ("IWS"), Charles Schwab, Royal Bank of Canada ("RBC"), Pershing, and JP Morgan Clearing Corp, to accommodate those services. HighTower's advisory teams typically determine their primary custodian during their transition to HighTower. They review many aspects of each custodian to determine which is the best fit for their specific client assets. During subsequent discussions with clients, if it is determined that the current primary custodian is not the ideal fit for the client, HighTower may use any one of the other approved custodians.

## F. Important Information Regarding Conflicts of Interest

Examples of other actual or potential conflicts of interest may include, but are not limited to:

- Conflicts relating to allocating time and resources between client accounts, and allocation of brokerage commissions, soft dollars and investment opportunities generally. We have an incentive to favor proprietary accounts or client accounts with performance-based fees or other beneficial compensation arrangements. For further information on our brokerage and allocation policies, and related conflicts of interest, please refer to Item 12 below;

- Conflicts relating to investing client assets (including uninvested cash) in investment vehicles in which we, or our related persons, have an interest or serve as adviser or another service provider. We have an incentive to recommend these products. Please refer to Item 10 and Section B in Item 11 below for further information;
- Conflicts relating to receipt of compensation or benefits, other than advisory fees. We have an incentive to favor non-clients that provide compensation to us over the interests of our clients. Please refer to Item 14 below for further information;
- Conflicts relating to investing in securities recommended to clients and contemporaneous trading of securities (i.e., personal trading) by HighTower and our related persons. We have an incentive to invest or trade in ways that benefit us, or our related persons, over the interests of our clients. Please refer to Item 11 for further information;
- Conflicts relating to voting securities held in client accounts when we are delegated the authority to vote proxies. Conflicts may arise from time to time between the interests of HighTower, or our related persons, and our clients. Please refer to Item 17 below for further information;
- Conflicts of interest relating to entertainment, gifts, sitting on boards of directors/trustees, charitable contributions, political contributions and other relationships with third parties. We have an incentive to favor those with whom we have these relationships. See Section A of Item 11 below for further information on our Code of Ethics.

Actual or potential conflicts of interest generally can be addressed in a number of ways, such as one or more of the following, for example:

- Prohibition – we prohibit the conduct that gives rise to the conflict of interest (e.g., insider trading is prohibited under our Code of Ethics);
- Disgorgement – we give a benefit received to a client (e.g., when we sub-advise a mutual fund and invest client assets in it, we avoid charging the client two advisory fees);
- Delegation – we engage a third-party to act or make a decision (e.g., we engage a proxy voting service);
- Isolation – we construct information barriers to prevent a person from gaining knowledge that gives rise to a conflict (e.g., we may isolate a portfolio manager from certain material non-public information);
- Validation – we establish a benchmark for conduct that is designed to protect client interests or limit the benefit that creates the conflict of interest (e.g., if any mutual fund that we sub-advise engages in a cross transaction, Rule 17a-7 under the Investment Company Act of 1940 is followed to obtain a reasonable value of securities in such cross trades);
- Disclosure/Consent – we disclose the conflict of interest to our clients (e.g., we require solicitors to provide disclosure regarding solicitation fees paid to them by us); or
- Setting a De Minimis Threshold – we set a threshold for a benefit that is considered too small to influence conduct, and is therefore permitted (e.g., we set limited on entertainment, gifts and political contributions under our Code of Ethics).

HighTower has adopted a Code of Ethics as required under SEC rules (Please refer to Item 11 below for further information on our Code of Ethics.) HighTower also has policies and procedures in place to mitigate and address the above-referenced conflicts of interest. HighTower believes such policies and procedures are reasonably designed to treat clients fairly, and seek to prevent clients from being systematically favored or disadvantaged. Our compliance policies provide for various auditing and testing of our policies and procedures, and are reviewed no less frequently than annually as required by SEC rules. Clients should refer to other sections of our brochure noted above for more specific information on conflicts of interest and how they are addressed.

## ITEM 5 - FEES AND COMPENSATION

Generally, fees received by HighTower will not exceed:

Account Asset Value	Equity/Balanced Annual Fee	Fixed Income Annual Fee
0 - \$500,000	2.50%	2.00%
\$500,001 - \$1,000,000	2.00%	1.50%
\$1,000,001 - \$5,000,000	1.75%	1.00%
\$5,000,001 and up	Negotiable	Negotiable

The total fee clients will pay typically includes HighTower's fee and the platform or program fee charged by the Custodian or other third party administering the platform or program, and/or the Money Managers. For certain programs, the fees charged by the Custodian or administrator of the platform or program are separate from HighTower's fee. Under many of these platforms and programs, there are no separate commissions or transaction costs charged to clients. In addition, many of these platforms and

programs do not charge separate administrative, custodial, or reporting fees. Such an "all-inclusive" or "bundled" fee structure is often otherwise referred to as a "wrap fee".

### **HOW HIGHTOWER IS COMPENSATED**

HighTower is compensated for investment advisory services by the following billing options:

- A percentage of assets under management;
- Hourly charges;
- Fixed fees (not including subscription fees);
- Commissions

### **FEES**

HighTower typically does not impose a minimum account size or a set minimum annual fee for its investment management services. This type of program may not be beneficial for accounts below \$500,000 due to the negative impact that trading and transaction costs may have on performance. HighTower may negotiate fees on a client-by-client basis. The fee charged will be stipulated within each client's advisory agreement with HighTower, and applies to all of the assets within the portfolio or household (as defined in the agreement).

A client's custom fee schedule is negotiated on a client-by-client and manager-by-manager basis. Certain clients, as described within a client's advisory agreement, may be billed in an "all-inclusive" manner. In such instances, HighTower will assess one fee that captures the management, brokerage, and administrative portions collectively (except for Select and Access program fees). Please see the Form ADV Part IIA – Appendix 1 - Wrap Fee Disclosure.

Fees are calculated quarterly, in arrears; thus the annual fee is divided by four. Assets included in clients' margin balance are typically included when calculating HighTower's fees. Clients should note that they may already be paying margin interest on these same assets. As an introducing broker/dealer, HighTower Securities, LLC may receive a margin interest spread, or rebate, on debit balances maintained in clients' margin accounts. Via HighTower Securities, LLC, HighTower may receive a portion of such spreads or rebates as compensation. As such, HighTower is subject to a potential conflict of interest in recommending that Advisory Clients open margin accounts and maintain debit balances where HighTower Securities, LLC serves as the introducing broker/dealer.

HighTower charges advisory fees based upon the valuation of client account(s) as determined by its performance reporting vendors. The total portfolio value on which fees are based may vary from the value on the custodian statement (the valuation may be higher or lower) due to such factors as the timing and posting of dividends, settlement dates for trades, etc. Because billing is based on the average daily balance in client accounts(s), the number will be different from the ending portfolio balance on the client's quarterly statement as well. In some cases, clients may provide HighTower with pricing for securities or real assets that cannot be (or are not) verified by HighTower (i.e., either cost basis information no longer readily available, value of real assets such as a client's home or art collection, etc.). These will be shown on client reports as "below the line" assets and will not be used when calculating the client's management fees for the quarter. In addition, accrued interest will not be included within the balance of fixed income products. This will factor in at the end of each quarter when calculating the average daily balance for the advisory fee calculation and performance calculation.

Clients invested in mutual funds will indirectly pay management fees and other expenses of the mutual funds that are separate and in addition to the advisory fees paid to HighTower. In addition, HighTower may participate indirectly in the sales charges imposed by mutual funds through its affiliated broker/dealer, HighTower Securities, LLC. HighTower Securities, LLC may receive 12b-1 fees in connection with certain mutual funds purchased for clients' accounts, including certain money market funds. These fees will not always be used to offset advisory fees paid by clients to HighTower, although in some cases clients' advisory fees may be lower (due to the receipt of the 12b-1 fees), than they otherwise would have been without the 12b-1 fees. HighTower may also receive shareholder-servicing fees (also referred to as "rebates" or "revenue sharing" payments) from various mutual fund companies with respect to its clients whose assets are invested in those mutual funds, which typically range from 5 basis points to 50 basis points depending on the mutual fund purchased. Via HighTower Securities, LLC, HighTower may receive a portion of such fees, rebates, and payments. As such, HighTower is subject to a potential conflict of interest in recommending that Advisory Clients purchase certain mutual funds.



## FEE PAYMENT

HighTower's default payment method is to deduct, or directly debit, the investment management fee directly from client accounts. If otherwise agreed, an invoice will be sent directly to the client and will be due in full within 10 days of receipt. Statements provided by the custodian will detail the total amount of the fees that have been deducted per quarter. In some cases, fee notifications may be sent by HighTower to clients. Fees are not verified by the custodian; it is the client's responsibility to do so.

Some assets (usually those with an initial or deferred sales charges) may be precluded from the on-going asset under management fee agreed to by clients and HighTower. At an agreed upon point in the future, the assets may be included in calculation of clients' quarterly fees (i.e., when sufficient time has passed to offset the initial or deferred sales charge already paid).

Certain platforms charge an "unbundled" fee, meaning fees for execution, custodial, reporting, and/or administrative services that are not combined with the Money Manager fees and/or HighTower's fees. Also, certain platforms will charge execution costs in the form of an asset-based fee. Depending upon the platform selected, there may not be an option for "householding" your accounts for fee discounts.

Clients are unable to pay the fees associated with their accounts in advance.

Under Wrap programs, an annual fee is negotiated between HighTower and its clients, typically ranging from 0.20% to 2.5%. The total fee clients will pay typically includes HighTower's fee and the platform or program fee charged by the Custodian or other third party administering the platform or program, and/or the Money Managers; for certain programs, the fees charged by the Custodian or administrator of the platform or program are separate from HighTower's fee. Under many of these platforms and programs, there are no separate commissions or transaction costs charged to clients. In addition, many of these platforms and programs do not charge separate administrative, custodial, or reporting fees. Such an "all-inclusive" or "bundled" fee structure is often otherwise referred to as a "wrap fee".

Certain platforms charge an "unbundled" fee; meaning fees for execution, custodial, reporting, and/or administrative services are not combined with the Money Manager fees and/or HighTower's fees. Also, certain platforms will charge execution costs in the form of an asset-based fee. Depending upon the platform selected, there may not be an option for "householding" your accounts for fee discounts.

In all cases, clients should carefully review each Disclosure Document maintained by Money Managers that have been selected to manage their assets, as well as the Disclosure Document for each wrap fee program that they participate in, for complete details on the charges and fees incurred. Such additional Disclosure Documents, as applicable, will be provided to clients by HighTower.

The fees clients pay the Money Manager and HighTower may be shown on clients' custodial statements as one gross fee or in some cases, as separate fees. Additionally, clients may request that fees be further detailed. In this case, the client will make this request on the client advisory agreement and will see two to three separate charges depending on the custodial reporting requirements. Some platforms and programs may require an additional advisory agreement with clients in addition to the agreement signed with HighTower. Similarly, certain platforms and programs may require clients to complete brokerage account documents necessary to open new brokerage accounts.

Access to certain Money Managers, platforms, and programs may be limited to certain types of accounts, and may be subject to account minimums, which will vary and may be negotiable depending upon the Money Managers, platforms, and programs selected. Certain platforms and programs administered by HighTower and/or made available to clients by HighTower may be available through other independent investment advisors, and in certain instances, directly via the Custodian or other third-party administering the platform or program. In addition, clients may be able to access certain Money Managers directly. As such, clients may be able to access such Money Managers, platforms, and programs at a lower cost through other channels. Further, it may be possible for a client to access Money Managers directly or through other platforms or programs for an "unbundled" fee that is lower than the "bundled" fee that is available through HighTower.

## FINANCIAL PLANNING FEES

Fees are negotiated on a case-by-case basis, and may be charged on an hourly or fixed fee basis. Once determined, the exact fee arrangement is set forth in the Client Agreement with HighTower.

Hourly Fees. Hourly rates range from \$60 to \$500 per hour based upon the knowledge and experience of the individual providing the work. Fees are billed in 15-minute increments. Hourly fees will be billed monthly as the work is provided (in arrears).

Fixed Fees. Fees are typically determined by estimating the number of hours to be spent preparing the plan and then quoting a fixed price. If additional work is requested (beyond the original scope of the project), it may be billed on an hourly basis or a fixed price basis as negotiated. Fixed fees will be invoiced monthly or quarterly depending upon the negotiated agreement with the client and the anticipated delivery of the plan. Other limited planning services are billed monthly.

In addition, some or all of the financial planning fees may be included in the investment management fees agreed upon by clients and HighTower. Financial planning is not always billed separately.

Total costs for financial plans, whether per hour or on a fixed basis, may range from as little as \$500 to as much as \$50,000 or more. There is no "typical" plan, as services are customized to the particular needs of the client; thus there is a wide range of fees that may be imposed.

Should a contract be terminated prior to the service being delivered, HighTower will bill for work completed. In the case of prepayment of fees, the prorated refund will be based upon the hourly rate of the individuals who provided services.

#### CALCULATION OF FEES

To ensure clients are billed fairly for the assets they have under management or supervision with HighTower, advisory fees will be based on the average daily balance in clients' account(s) during a quarter, rather than billing on the account balance as of the last day of the quarter. Unless otherwise stated, fees will be invoiced in arrears for all quarters. As assets will rarely transfer into an account and be in a client's account for an entire quarter when the relationship with HighTower is established, HighTower will invoice in arrears for the first quarter based on the average daily balance and the number of days a client's assets are actually in its HighTower account(s). Clients will receive one HighTower fee deduction per quarter for the average daily balance of the previous quarter's managed assets.

Some platforms and programs charge fees in arrears, and some in advance. These are outlined in the applicable program's Disclosure Document. Each client's billing specifics and election (where applicable) are listed in its client advisory agreement.

#### ADDITIONAL COSTS

All fees paid to HighTower for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds to their shareholders. These fees and expenses are described in each fund's prospectus. These fees will generally include a management fee, other fund expenses, and a possible distribution fee. Clients should review such additional fees and the fees HighTower charges to understand the total amount of fees paid, as investments in mutual funds may be made by clients, independent of and without the services provided by HighTower.

Virtually all investments purchased by prospectus or private placement memorandum have internal fees that are borne by the client in addition to any trading, execution, or HighTower advisory fees.

HighTower is not compensated based on a share of capital gains upon or capital appreciation of the assets or any portion of the assets of any client. HighTower's advisory fees are charged only as described within this Disclosure Document.

#### ADDITIONAL COMPENSATION

HighTower Advisors may act as registered representatives under HighTower Securities, LLC, and receive compensation for some of the services provided in correlation with the advisory services herein. HighTower receives economic benefit in the form of commissions for insurance transactions and group annuities. Clients are not obligated to use any recommended insurance company, agency or broker.

## Shareholder Services – Commissions and 12b-1 Fees/Trails

HighTower Advisors, LLC has arrangements with Schwab, IWS, JP Morgan, Pershing and HighTower Securities, LLC whereby the custodian pays HighTower Securities a fee equal to a fixed percentage of the total assets in certain mutual funds of certain client accounts, including mutual fund positions held by individual retirement accounts or accounts subject to the Employee Retirement Income Security Act of 1974, as amended, or that is a plan as described in Section 4975 of the Internal Revenue Code (including Individual Retirement Accounts) (collectively, "ERISA Accounts") of HighTower Advisor's employees, principals, and/or officers who are registered representatives of HighTower Securities. The fee that the custodian pays HighTower Securities might represent a significant amount of that custodian's mutual fund service fees. The fee is in recognition of certain shareholder servicing that registered representative affiliate(s) of HighTower Securities perform in respect of those assets. Those shareholder servicing fees are often referred to as trailers, rebates or revenue sharing arrangements and are received from various mutual fund companies with respect to its clients whose assets are invested in those mutual funds, which typically range from 5 basis points to 50 basis points depending on the mutual fund purchased. Because the affiliate(s) of HighTower Securities receive an economic benefit, HighTower Advisors has a potential conflict of interest in recommending to clients that they use a specific custodian and invest their assets in certain mutual funds.

These fees will not always be used to offset HighTower's fees, although in some cases clients' quarterly fee may be lower because of the receipt of the Shareholders Services fees. The possibility of this compensation creates an incentive for an Investment Advisor to make decisions for the clients which would have the effect of increasing this compensation.

## **ITEM 6 - PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

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HighTower does not charge or accept any performance-based fees (i.e. fees based on a share of the capital gains on a client's account or on the capital appreciation of the client's assets).

"Side-by-side management" refers to our simultaneous management of different types of client accounts/investment products. For example, the firm manages accounts for different clients at the same time. Our clients have different investment objectives, policies, strategies, limitations and restrictions.

Side-by-side management gives rise to a variety of potential and actual conflicts of interest for the firm, our employees and supervised persons. We follow procedures that are reasonably designed to treat our clients fairly and to prevent any client or group of clients from being systematically favored or disadvantaged and we manage our accounts consistent with applicable law. Please see Item 11 for a discussion of such procedures.

## **ITEM 7 – TYPES OF CLIENTS**

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HighTower generally provides advisory services to:

- Individuals - High Net Worth and Ultra High Net Worth;
- Pension and profit sharing plans;
- Trusts, estates and charitable organizations;
- Corporations or other business entities; and
- Institutional organizations - colleges, universities

Account Requirements: Generally, there is no set minimum annual fee or minimum account size to open or maintain an account. Although HighTower's investment management services may not be beneficial for accounts below \$500,000, as trading and transaction costs may have a negative impact on performance. There are no minimum account sizes for financial planning services.

General Note Regarding Managed Account Platforms and Wrap Programs:

Access to certain money managers, platforms, and programs may be limited to certain types of accounts and may be subject to account minimums, which will vary and may be negotiable depending upon the money managers, platforms, and programs selected.

Such minimums will be disclosed by the money managers and/or administrators to such platforms and wrap programs through their separate disclosure documents.

## **ITEM 8 - METHOD OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

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HighTower utilizes a variety of methods and strategies when formulating investment advice and managing client assets. The method of security analysis include (but do not limit):

- Charting;
- Fundamental Analysis; and
- Technical Analysis

Other analysis methods may be utilized by in vetting potential investments for clients, including, but not limited to, conducting operational due diligence on third-party money managers and unaffiliated pooled investment vehicles

HighTower's main sources of information in regards to security analysis include (but do not limit):

- Financial newspapers and magazines
- Inspections of corporate activities
- Research materials prepared by others
- Corporate rating services
- Annual reports, prospectuses, filings with the SEC - Company press releases

HighTower uses the following investment strategies to implement any investment advice (but not limited to):

- Long term purchases (securities held at least a year)
- Short term purchases (securities sold within a year)
- Trading (securities sold within 30 days)
- Margin transactions (is a transactions that a broker/dealer extends credit to customer in a margin account to assist in the purchase of a security)
- Option writing (is investing in an option to execute an investment at a certain price expecting the price of the underlying stock to increase or decrease)
  - covered options (investors writes a call option while owning the same number of shares of the underlying stock)
  - uncovered options (investors writes a call option while not owning the underlying stock)
  - spreading strategies (Buy and selling of the same option contract)

Other investment strategies may be chosen if they meet a client's particular financial needs, risk profile, and overall investment strategy.

Margin Transactions: HighTower may recommend that advisory clients engage in margin transactions. Purchasing securities on margin can amplify potential returns and losses. As such, purchasing securities on margin may result in losses greater than an advisory client's original principal. Clients should carefully review disclosures regarding risks, fees, and other considerations appearing in margin account agreements prior to opening margin accounts.

Subject to the client's advisory agreement, we may invest and reinvest client's assets in a variety of securities and other investments. These securities and other investments may include, among other securities or other investments permitted under client investment guidelines:

- Equity Securities:
  - exchange-listed securities
  - securities traded over-the-counter
  - foreign issuers
- Warrants
- Corporate debt securities (other than commercial paper)
- Commercial paper

- Certificates of deposit
- Municipal securities
- Investment company securities:
  - variable life insurance
  - variable annuities
  - mutual fund shares
- United States government securities
- Options contracts on:
  - Securities
  - Commodities
- Interests in partnerships investing in:
  - real estate
  - oil and gas interests
- ETFs (exchange-traded funds);
- REITs (real estate investment trusts);
- limited partnerships;
- hedge funds;
- private equity;

Investments in different vehicles can lose money over short or even long periods. You should expect the investment's share price and total return to fluctuate within a wide range, like the fluctuations of the overall stock market. Your investment performance could be hurt by:

- *Stock market risk*: 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.
- *Sector risk*: the chance that significant problems will affect a particular sector, or that returns from that sector will trail returns from the overall stock market. Daily fluctuations in specific market sectors are often more extreme than fluctuations in the overall market. Depending on how the vehicle allocates assets, it may invest all, or substantially all, of its assets in the consumer discretionary sector, the investment's performance largely depends—for better or for worse—on the general condition of that sector. Companies in the consumer discretionary sector could be affected by, among other things, overall economic conditions, interest rates, consumer confidence, and disposable income.
- *Non-diversification risk*: the chance that the investment's performance may be hurt disproportionately by the poor performance of relatively few stocks or even a single stock. An investment is considered nondiversified, when it may invest a greater percentage of its assets in the securities of a small number of issuers as compared with other mutual funds.
- *Investment style risk*: which is the chance that returns from small- and midcapitalization stocks (to the extent that the clients' assets are invested in small- and mid-cap stocks) will trail returns from the overall stock market. Historically, these stocks have been more volatile in price than the large-cap stocks that dominate the overall market, and they often perform quite differently. Because ETF Shares are traded on an exchange, they are subject to additional risks:
  - Consumer Discretionary ETF Shares are listed for trading on NYSE Arca and can be bought and sold on the secondary market at market prices. Although it is expected that the market price of a Consumer Discretionary ETF Share typically will approximate its net asset value (NAV), there may be times when the market price and the NAV vary significantly. Thus, the client may pay more or less than NAV when you buy Consumer Discretionary ETF Shares on the secondary market, and you may receive more or less than NAV when you sell those shares.
  - Although Consumer Discretionary ETF Shares are listed for trading on NYSE Arca, it is possible that an active trading market may not be maintained.
  - Trading of Consumer Discretionary ETF Shares on NYSE Arca may be halted by the activation of individual or marketwide "circuit breakers" (which halt trading for a specific period of time when the price of a particular security or overall market prices decline by a specified percentage). Trading of Consumer Discretionary ETF Shares may also be halted if (1) the shares are delisted from NYSE Arca without first being listed on another exchange or (2) exchange officials determine that such action is appropriate in the interest of a fair and orderly market or to protect investors.

*Investment Company Risk:* By investing in mutual funds you risk the potential of not capitalizing on the growth of the overall stock market. If some of the underlying stocks run up in price, mutual funds may not be able to capitalize on the appreciation due to the potential of other underlying stocks not appreciating as much.

In addition, the fees associated with investing in mutual funds may be more than if you were to purchase the underlying shares directly.

*Private Equity Risk:* Private Equity is normally an investment with companies or sectors that are not publicly traded. These investments are normally very illiquid; therefore they are not ideal for clients with frequent cash needs. There is normally no public market for private equity shares, if investors need to sell their shares they will so mostly like at a substantial discount. The risk of investing with a private equity is the majority or complete loss of invested funds depending on the underlying companies. In addition, investors may not see any return on investment for some time depending on the type of investment; these investments should be seen as a long term investment.

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## ITEM 9 - DISCIPLINARY INFORMATION

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Our firm and management personnel have no reportable disciplinary events to disclose.

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## ITEM 10 - OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

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HighTower has arrangements that are material to its advisory business or its clients with a related person who is a:

- broker/dealer (HighTower Securities)
- other investment adviser
- insurance company or agency

### **Affiliated Broker-Dealer, Investment Adviser and Insurance Brokers**

HighTower is affiliated through common ownership with HighTower Securities, LLC ("HighTower Securities"). HighTower Securities is also licensed as a general insurance broker and agency. HighTower Securities is a member of FINRA, the MSRB, and SIPC and is registered in various states as required. These registrations do not imply a certain skill level or training.

HighTower Securities may receive a commission or other form of compensation in connection with such sales.

Clients are not obligated to use HighTower or HighTower Securities as their insurance broker or agent, or to use any recommended insurance company for any recommended insurance transaction.

HighTower may utilize outside insurance agencies or brokers for help with the analysis and recommendation of insurance products and/or for insurance licensing and appointments with various states and insurance companies.

HighTower is also affiliated through common ownership with HighTower Holding, LLC. Such affiliates may be registered investment advisers, and include: M.D. Sass Macquarie Financial Strategies Fund, Macquarie Funds Group (a wholly owned subsidiary of M.D. Sass Macquarie), Franklin Mutual Advisors, LLC, Envestnet, and Offit Capital.

HighTower may recommend that clients engage affiliates to provide advisory services and/or invest in advisory products managed by affiliates, including, but not limited to, limited partnerships. HighTower completes a rigorous due diligence review on its partners before approving their products and services for clients, and only products that are believed to meet a client's investment objectives and risk tolerance are recommended. HighTower does not receive additional benefits or compensation from these firms because HighTower uses their products and services, although in some cases the pricing HighTower is able to offer its clients may be less than it would have been without this relationship.

## ITEM 11 - CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

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Participation or Interest in Client Transactions:

HighTower:

- As broker or agent effects securities transactions for compensation for any client
- Recommends to clients that they buy or sell securities or investment products in which the applicant or a related person has some financial interest
- Buys or sells for itself securities that is also recommends to clients

### PERSONAL SECURITIES TRANSACTIONS AND INSIDER TRADING

In compliance with Section 204A of the Advisers Act, and Rule 204-1 thereunder, HighTower has adopted written policies and procedures designed to detect and prevent the misuse of material, nonpublic information. Through its professional activities, HighTower is exposed to a potential conflict of interest and has adopted a Code of Ethics governing the personal securities transactions of persons deemed to be "access" persons if HighTower or certain individuals associated with HighTower purchase or sell securities identical to those recommended to customers for their personal accounts. An "access" person is a individual employed by a firm that has access and/or contact with client information. HighTower or its employees may have an interest or position in certain securities which may also be recommended to clients. The Code of Ethics is intended to mitigate these potential conflicts.

### HIGHTOWER'S CODE OF ETHICS

A Code of Ethics (the "Code") has been developed for HighTower's access persons. This Code was developed to provide general ethical guidelines and specific instructions regarding the duties owed to advisory clients. All access persons must act with competence, dignity, integrity, and in an ethical manner, when dealing with clients, the public, prospects, third-party service providers and fellow access persons. Access persons must use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, trading, promoting HighTower's services, and engaging in other professional activities. All access persons are expected to adhere to the highest standards with respect to any potential conflicts of interest with clients. As a fiduciary, HighTower must act in its clients' best interests. A copy of the complete Code may be obtained by contacting HighTower at [Compliance@hightoweradvisors.com](mailto:Compliance@hightoweradvisors.com), or by phone, at 312-962-3800.

Access persons' trades must be executed in a manner consistent with fiduciary obligations to clients; personal trades should avoid actual improprieties, as well as the appearance of impropriety. Access person's personal trades must not be timed to precede orders placed for any client, nor should trading activity be so excessive as to conflict with the access person's ability to fulfill daily job responsibilities. Other specific policies and prohibitions exist with respect to access persons' personal trading activities, as discussed in the complete Code.

Access persons must submit quarterly reports regarding securities transactions and newly opened accounts, as well as annual reports regarding holdings and existing accounts. HighTower monitors access persons' personal trading activity at least quarterly to ensure compliance with internal control policies and procedures. HighTower strives to ensure that all access persons act in accordance with applicable regulations governing registered investment advisory practices as they apply to HighTower. Any access person not in observance of this goal is subject to sanctions, including termination of employment.

### CROSS TRANSACTIONS

A cross trade would occur if HighTower executes a buy and sell order of the same stock without recording the trade on the exchange. In addition, HighTower could execute a buy and sell from the same security from one client account to another. HighTower does not participate in cross transactions for any client without the approval of each client.

### AGENCY CROSS TRANSACTIONS

An agency cross trade would occur if HighTower executes a trade for a HighTower advisory client on one side of the transaction and a non-advisory client on the other. HighTower does not currently engage in agency cross trades.

## PRINCIPAL TRANSACTIONS

A principal transaction is one in which HighTower would engage in the practice of buying securities for its own inventory from a HighTower advisory client or selling securities from its own inventory to a HighTower advisory client. HighTower does not currently engage in principal transactions for advisory clients.

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## ITEM 12 - BROKERAGE PRACTICES

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### BEST EXECUTION

Best execution is the obligation of HighTower to execute orders on behalf of customers to ensure that the prices those orders receive reflects the optimal mix of price improvement, speed and likelihood of execution. HighTower examined this potential conflict of interest when choosing to enter into relationships with Fidelity, Schwab, RBC, JP Morgan and Pershing and determined that the relationships are in the best interests of clients and that they satisfy HighTower's fiduciary obligations, including the duty to seek best execution. A client may pay a commission that is higher than another qualified broker/dealer might charge to effect the same transaction where HighTower determines in good faith that the commission is reasonable in relation to the value of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker/dealer's services, including the value of research provided, execution capability, commission rates, and the benefit to all clients. Best execution may not necessarily be the lowest possible commission rate for specific client account transactions. HighTower understands its duty to seek best execution.

### DIRECTED BROKERAGE

Directed brokerage is the where a client prefers a non- approved custodian to direct trades to. With HighTower not having an established relationship with these custodians, the client may pay higher servicing fees to the custodian of their choice. In directing HighTower to use a specific custodian and/or broker/dealer (other than those recommended by HighTower), clients should understand that Hightower will not have the authority to negotiate commissions among various Custodians or obtain volume discounts. This may also affect our ability to achieve best execution.

### Brokerage Discretion – Prime Brokerage

For a number of discretionary client accounts, HighTower currently has the discretionary authority to pick a non-related broker (other than a client's current Custodian), to execute a fixed income trade. Each trade placed at a broker other than a client's selected Custodian will cost the client up to \$25.00, which is charged by the Custodian to settle the trade. This is in addition to any mark-up or mark-down that may be paid to the broker/dealer HighTower selects to buy or sell the security. No mark-ups or mark-downs are charged by HighTower Securities, LLC in its role as broker/dealer when serving as the broker/dealer for advisory accounts.

Clients must qualify for prime brokerage to participate in these transactions. To qualify for prime brokerage transactions, clients must maintain a minimum portfolio value of \$150,000 or more and sign the appropriate prime brokerage paperwork with the custodian. HighTower may use this discretionary authority to trade away from the custodian when purchasing or selling fixed income securities only. It is not used in all cases. Reasonable restrictions on this authority may be imposed, as described above.

### No Brokerage Discretion

If a client account does not qualify for prime brokerage, HighTower will not have the ability to trade at any other broker other than the client's selected Custodian (without the client's specific consent). All transactions for a client's account will be directed to its chosen Custodian unless permission is granted by a client to HighTower for prime brokerage trades.

HighTower generally recommends that all clients select one of the following Custodians: Fidelity/IWS, Schwab, Pershing, RBC, or JP Morgan.



## SOFT DOLLARS

HighTower may receive certain products and services from broker/dealers or custodians utilized in the management of the client's account. The amount of products and services does not depend on the amount of the transaction or amount of assets under the broker's custody. To the best of HighTower's knowledge, these services are generally made available to all institutional investment advisers doing business with these broker/dealers. These bundled services are made available to HighTower on an unsolicited basis and without regard to the rates of commissions charged or paid by clients or the volume of business directed to these broker/dealers. Since these products and services are merely made available by broker/dealers as part of a bundled business package to HighTower, HighTower does not consider products and services received in this context to be "soft dollars".

HighTower shall comply with its duty to obtain "best execution." However, a client may pay a commission that is higher than another qualified broker-dealer might charge to effect the same transaction where HighTower determines, in good faith, that the commission is reasonable in relation to the value of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealer's services, including among others, the value of research provided, execution capability, commission rates, and responsiveness. Consistent with the foregoing, while HighTower will seek competitive rates, it may not necessarily obtain the lowest possible commission rates for client transactions.

## TRADE ERRORS

If a trade error occurs in a client account and it is HighTower's error, HighTower will correct the error so the client account does not suffer a loss. However, it is possible that the client may not profit from the error, even if the correction results in a profit. For example, clients that select Schwab as their custodian should be aware that Schwab may keep all trade error profits on an error regardless of how the error was caused.

## CAPS BLOCK TRADING (MINI BLOCKS) AND TRADE ALLOCATIONS

HighTower may "aggregate" or "block" purchases or sales of the same security for multiple accounts. HighTower may also in certain circumstances include access person transactions with those of nonaffiliated clients. Each account participating in the block will receive the average price if multiple executions are required to complete the order. Block trades will typically be segregated by custodian and HighTower Advisory team when purchasing or selling securities. Clients participating in a mini block may not receive the benefit of negotiated commissions, as HighTower does not have that authority on an account-by-account or transaction-by-transaction basis. HighTower may block multiple client accounts together that qualify for prime brokerage trading activity. Participating clients will receive the average execution price and their pro rata share of transaction costs.

However, because of HighTower's practice of managing portfolios on an individual basis, HighTower does not frequently block transactions except for certain accounts managed in accordance with a model. Thus, HighTower's ability to take advantage of volume discounts or other potential cost and execution advantages of block trades may be limited.

HighTower urges all advisory teams to use block trading to assist in all clients receiving the same execution price. In addition, accounts participating in block trades pay a proportional share of any commission, subject to minimum ticket charges. HighTower allows de minimis deviations with respect to allocation determinations in order to place round lots in advisory client accounts.

## SYNDICATE PROCEDURES FOR NEW ISSUES OR SECONDARY OFFERINGS (EQUITY AND FIXED INCOME)

For a client to take part in any new issue or secondary offering the necessary documents need to be on file. HighTower then will reach out the clients to see if they have any interest in the new issues. If a client does, their order will be filled utilizing the following allocation process, subject to change at the discretion of the HighTower trade desk:

1. If a full allocation is received, all advisors will receive 100% of their indication of interest
2. If a partial allocation is received, shares will be allocated to the participating reps based on a number of factors including:
  - a. The size of the indications at the account level
  - b. Account level participation in previous deals
  - c. Account level size/net worth

## RECOMMENDATION OF A CUSTODIAN

HighTower generally recommends that clients select one of the following custodians: Fidelity/IWS, Schwab, RBC, JP Morgan or Pershing. All such custodians are members of FINRA and the Securities Investor Protection Corporation (SIPC), and are registered broker/dealers. These firms maintain custody of clients' assets and effect trades in client accounts. HighTower is independently owned and operated and not affiliated with any of the recommended Custodians.

In recommending these firms, HighTower has evaluated each and determined that they offer HighTower's clients an excellent blend of service, financial strength, competitive commission rates, and access to mutual funds otherwise not available to HighTower or its clients, among other factors. Each of these firms provide HighTower with access to institutional trading and custody services, which are typically not available to retail investors.

**For Fidelity accounts:** HighTower has an arrangement with National Financial Services LLC and Fidelity Brokerage Services LLC (together with affiliates, "Fidelity") through which Fidelity provides HighTower with Fidelity's "platform" services. The platform services include, among others, brokerage, custodial, administrative support, recordkeeping, and related services that are intended to support intermediaries such as HighTower in conducting business and serving the best interests of clients. These may also be a benefit to HighTower, which may otherwise have to pay for such items at its own expense.

Fidelity charges brokerage commissions and transaction fees for effecting certain securities transactions (i.e., transactions fees are charged for certain no-load mutual funds, commissions are charged for individual equity and debt security transactions). Fidelity enables HighTower to obtain many no-load mutual funds without transaction charges and other no-load funds at nominal transaction charges. Fidelity's commission rates are generally considered discounted from customary retail commission rates. However, the commissions and transaction fees charged by Fidelity may be higher or lower than those charged by other custodians and broker/dealers.

As part of the arrangement, Fidelity also makes available to HighTower, at no additional charge, certain research and brokerage services, including research services obtained by Fidelity directly from independent research companies, as selected by HighTower. Some research packages may be selected by HighTower from the Fidelity system and do incur an additional charge to HighTower. For example, these research and brokerage services presently may include those provided by Reuters, Standard and Poor's, and Bloomberg, and may be used by HighTower to manage accounts and provide advice to all clients regardless as to whether such clients use Fidelity.

Fidelity has an ownership interest in Envestnet, a firm involved with managed account platforms and wrap programs recommended by HighTower. Envestnet is an investor in HighTower. As such, HighTower faces a conflict of interest in approving advisory products and services involving Envestnet to be recommended to clients by HighTower. HighTower attempts to mitigate this potential conflict by completing the same level of due diligence that it would otherwise complete for an unaffiliated firm before approving their products and services for recommendation to its clients.

**For Schwab accounts:** These services may be available to independent investment advisers on an unsolicited basis, at no charge to them, as long as a total of at least \$10 million of the adviser's clients' assets are maintained in accounts at Schwab Institutional, and are not otherwise contingent upon Adviser committing to Schwab any specific amount of business (assets in custody or trading). Schwab's services include brokerage, custody, research, and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment.

If a client account custodied at Schwab is based upon transaction-based pricing, the participation in the wrap fee sponsored by HighTower may present a disincentive for HighTower to effect securities trades in the client account inasmuch as HighTower will pay the transaction/execution costs associated with such trades directly to Schwab.

For HighTower's client accounts maintained in its custody, Schwab generally does not charge separately for custody but is compensated by account holders through commissions or other transaction-related fees for securities trades that are executed through Schwab or that settle into Schwab accounts.

**For JP Morgan accounts:** By recommending certain programs, HighTower is also recommending itself and its affiliated broker/dealer, HighTower Securities, LLC. HighTower may have an incentive to recommend programs that generate revenue for HighTower and its affiliated broker/dealer over other programs to the extent that such arrangements generate higher total income for HighTower and its affiliates. In addition, clients should understand that this brokerage arrangement may cause the client to forego any potential savings on execution costs that HighTower otherwise might be able to negotiate with different broker/dealers, such as reduced execution costs that may result from utilizing alternative trading services.

HighTower's affiliated broker/dealer, HighTower Securities, LLC may earn compensation for accounts custodied at JP Morgan. HighTower Securities, LLC has a financial interest in acting as broker and executing transactions for such accounts, because HighTower Securities, LLC receives commissions in the form of service or 12b-1 fees in connection with assets in money market funds. These fees are ultimately born by clients in these funds (these assets are typically excluded from the calculation of clients' advisory fee). Service or 12b-1 fees are regulated under the Investment Company Act of 1940. Ultimately this may also provide indirect compensation to HighTower.

**For RBC accounts:** HighTower has an arrangement with Royal Bank of Canada (Channel Islands) Limited ("RBC") through which RBC provides HighTower with off shore "platform" services. The platform services include, among others, brokerage, custodial, administrative support, recordkeeping, and related services that are intended to support intermediaries such as HighTower in conducting business and serving the best interests of clients. These may also be a benefit to HighTower, which may otherwise have to pay for such items at its own expense.

**For Pershing accounts:** HighTower has an arrangement with Pershing Advisor Solutions through which Pershing provides HighTower with their "platform" services. The platform services include, among others, brokerage, custodial, administrative support, recordkeeping, and related services that are intended to support intermediaries such as HighTower in conducting business and serving the best interests of clients. These may also be a benefit to HighTower, which may otherwise have to pay for such items at its own expense.

Pershing charges brokerage commissions and transaction fees for effecting certain securities transactions (i.e., transactions fees are charged for certain no-load mutual funds, commissions are charged for individual equity and debt security transactions). Pershing enables HighTower to obtain many no-load mutual funds without transaction charges and other no-load funds at nominal transaction charges. Pershing's commission rates are generally considered discounted from customary retail commission rates. However, the commissions and transaction fees charged by Pershing may be higher or lower than those charged by other custodians and broker/dealers.

As part of the arrangement, Pershing also makes available to HighTower, at no additional charge, certain research and brokerage services, including research services obtained by Pershing directly from independent research companies, as selected by HighTower. Some research packages may be selected by HighTower from the Pershing system and do incur an additional charge to HighTower. For example, these research and brokerage services presently may include those provided by Reuters, Standard and Poor's, and Bloomberg, and may be used by HighTower to manage accounts and provide advice to all clients regardless as to whether such clients use Pershing.

## GENERAL INFORMATION

Before HighTower approves a custodian for recommendation to clients, HighTower will review, as applicable, the firm's operational, financial, and regulatory status, as well as their technological offerings, research capabilities, and execution capabilities, among other things. Even though HighTower recommends specific custodians, clients should evaluate each firm to ensure that the custodian selected will provide the best blend of service and cost. Transaction charges, commissions and fees may be higher or lower than clients would pay at other firms. HighTower has negotiated arrangements with all its custodians and trading platforms to provide pricing and services that it believes are competitive with all firms offering similar services.

HighTower may also receive additional services which may include the ability to enter trades electronically, compliance guidance, consolidated account statements for clients with multiple accounts, etc. Without this arrangement, HighTower might be compelled to purchase the same or similar services at its own expense.

HighTower participates in back office and support programs sponsored by each of these brokers. These programs and the services provided, including trading capabilities, are essential to HighTower's service arrangements. HighTower generally does not accept clients who direct HighTower to use other broker/dealers. As part of its participation in these programs, HighTower receives benefits that it would not receive if it did not offer investment advice.

As a result of receiving such services at a reduced cost (or at no additional cost), HighTower may have an incentive to continue to use or to expand the use the services of its chosen Custodians. HighTower examined this potential conflict of interest when choosing to enter into the relationship with these firms and determined that the relationship is in the best interests of its clients and that HighTower is able to satisfy its obligations to clients, including its duty to seek best execution. A client may pay a commission that is higher than another qualified broker/dealer might charge to effect the same transaction where HighTower determines in good

faith that the commission is reasonable in relation to the value of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker/dealer's services, including, among other things, the value of research provided, execution capability, and commission rates. As such, HighTower may not necessarily obtain the lowest possible commission rates and other transaction costs for specific client account transactions, it will seek to obtain best execution in all cases. Although the investment research products and services that may be obtained by HighTower will generally be used to service all clients, a brokerage commission paid by a specific client may be used to pay for research that is not used in managing that specific client's account.

### **Referrals to Custodians**

As stated previously, HighTower utilizes the custodial services of Fidelity/IWS, Schwab, RBC, JP Morgan and Pershing. Through these firms HighTower receives direct access to real-time client account information, electronic download of trades, balances and positions, and the ability to directly debit clients' advisory fees. HighTower also receives software and support services, including reductions in seminar and conference fees from these firms. These services provided to HighTower are not contingent upon any specific amount of business (assets or trading). Therefore, the HighTower client's advisory accounts are custodied at one of the aforementioned firms which have a relationship with its affiliated broker/dealer, HighTower Securities, LLC. HighTower's participation in these arrangements may raise potential conflicts of interest. HighTower acknowledges its duty for "best execution" for its client transactions.

Fidelity, Schwab, Pershing and JP Morgan have dedicated services and technology for registered investment advisers. This is a key reason for HighTower's selection of these firms. They provide HighTower with benefits it may not receive from other firms - in terms of pricing and services. They also make available services intended to help HighTower manage and further develop its business enterprise. These services may include consulting, publications and conferences on practice management, information technology, business succession, regulatory compliance and marketing. In addition, they may make available, arrange and/or pay for these types of services rendered to HighTower by independent third parties. Fidelity, Schwab, Pershing and JP Morgan may discount or waive fees they would otherwise charge for some of these services or pay all or a part of the fees of a third-party providing these services to HighTower. While, as a fiduciary HighTower endeavors to act in its clients' best interests, HighTower's recommendation that clients maintain their assets at one of these firms may be based in part on the benefit to HighTower of some of these products and services, and not solely on the nature, cost or quality of their custody and brokerage services. This may create a potential conflict of interest.

## **ITEM 13 - REVIEW OF ACCOUNTS**

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### **A. REVIEW OF ACCOUNTS**

#### **1. INVESTMENT MANAGEMENT SERVICES, MANAGED ACCOUNT PLATFORMS, AND WRAP PROGRAMS**

Each account receives at least an annual review by HighTower and/or someone appropriately knowledgeable on his/her staff ("a reviewer"). In most cases, accounts are reviewed far more frequently through telephone calls, in-person meetings, overall strategy reviews, review of monthly and quarterly statements, etc. These reviews will be done by the portfolio manager assigned to the account.

Reviews are based on objectives and parameters established by clients, which are generally memorialized through their individual advisory agreements, investment policy statements, and/or asset allocations. Each reviewer handles a different number of clients as the number varies from office-to-office. The number of reviewers may be increased as client demand increases.

Periodic reviews and face-to-face meetings or conference calls are encouraged between clients and HighTower. Events that may trigger a review include client requests; a change in financial goals or objectives; and significant world, economic or market events.

While HighTower will typically evaluate the continued suitability of specific Money Managers (as applicable), managed account platforms, and wrap programs during account reviews, the administrators of such platforms and programs (which may be HighTower,

a Custodian, or another third-party) may also perform their own reviews of managers appearing on the platforms and programs. Any such reviews will be disclosed in the separate Disclosure Documents maintained by the administrators to applicable platforms and programs.

In addition, HighTower's Compliance Group performs their own review of client accounts. They review the account to determine if they are staying with in the client's account suitability, risk tolerance and goals among other things.

## 2. FINANCIAL PLANNING SERVICES

Financial plans may not be reviewed, depending on the nature of the service, until after the plan is delivered (in the case of a written plan) or after the service is provided.

## B. REGULAR REPORTS PROVIDED TO CLIENTS

### 1. INVESTMENT MANAGEMENT SERVICES, MANAGED ACCOUNT PLATFORMS, AND WRAP PROGRAMS

HighTower may provide investment management clients a quarterly performance report. This report is typically an account appraisal and may identify some or all of the following information: current positions, security cost basis and current market value, and capital contributions and withdrawals from the account. In addition, a summary performance analysis report, which shows the portfolio rate of return, will be provided for the most recent quarter and will also show the return from inception of the account. Taxable clients may receive a realized gain and loss report for tax purposes. All reports are in addition to custodial statements and transaction confirmations received from the client's custodian, they in no way replace the custodial statements. These reports will often be provided electronically or presented in face-to-face meetings.

Additional reporting may also be provided by Money Managers and the administrators of managed account platforms and wrap programs, depending on the particular Money Manager, platform, or program selected. Any such additional reporting will be disclosed in the separate Disclosure Documents maintained by Money Managers and the administrators to applicable platforms and programs.

### 2. FINANCIAL PLANNING

No on-going financial planning reports are provided for financial planning clients unless a financial plan update or additional services are requested.

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## ITEM 14 - CLIENT REFERRALS AND OTHER COMPENSATION

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### A. Economic Benefits Received from Non-Clients for Providing Services to Clients.

Please see Item 12 of this Brochure above for further information on services and products HighTower may receive from non-clients, including the Firm's procedures for addressing conflicts of interest that arise from such practices.

HighTower policies prohibit our related persons from accepting any form of compensation, including cash, sales awards or other prizes, from a non-client in conjunction with the advisory services we provide to our clients.

### B. Compensation to Non-Supervised Persons for Client Referrals.

Hightower may pay referral fees to independent persons or firms ("Solicitors") for introducing clients to us. Whenever we pay a referral fee, we require the Solicitor to provide the prospective client with a copy of this document (our Firm Brochure), and a separate disclosure statement that includes the following information:

- the Solicitor's name and relationship with our Firm;
- the fact that the Solicitor is being paid a referral fee;
- the amount of the fee; and

- whether the fee paid to HighTower by the client will be increased above our normal fees in order to compensate the Solicitor.

As a matter of Firm practice, advisory fees paid to us by clients referred by Solicitors are not increased as a result of any referral. Where applicable, cash payments for client solicitations will be structured to comply fully with the requirements of Rule 206(4)-3 under the Advisers Act, related SEC staff interpretations, and other applicable laws and regulations. In no event will such solicitation services include providing investment advisory services. The compensation paid by HighTower for these solicitation services is paid completely by HighTower from the management fees earned, which are not increased or passed through to the referred client in any way as a result of a third-party solicitor's involvement in the introduction.

HighTower may also receive client referrals from Custodians. While HighTower does not receive such referrals pursuant to a formal agreement and does not directly compensate Custodians for such referrals, such referrals could present a potential conflict of interest as HighTower could have an incentive to direct brokerage to certain broker/dealers in order to continue receiving referrals. HighTower does not consider client referrals from broker/dealers when making brokerage allocation decisions.

#### **C. THIRD PARTY MANAGERS AND HEDGE FUNDS**

HighTower may have revenue-sharing arrangements with respect to certain third-party managed accounts and hedge funds recommended to advisory clients. No separate advisory fee is charged on such assets. However, HighTower may receive a percentage of the advisory fees (both hedge funds and managed accounts) and incentive allocations (hedge funds only).

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### **ITEM 15 - CUSTODY**

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HighTower does not custody client funds and/or securities and acts in accordance of Adviser Act Rule 206(4)-2.

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### **ITEM 16 - INVESTMENT DISCRETION**

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For many clients, HighTower has investment discretionary authority (i.e., authority to act without first obtaining specific client consent) to determine the securities to be bought or sold, and the amount of the securities to be bought or sold. This discretionary authority also allows HighTower to determine the money manager to be used for client account(s) through its money management platform.

Clients may impose reasonable restrictions on this authority, (i.e., no defense stocks, no tobacco, etc.). All such restrictions shall be documented in writing. Clients may modify the imposed restrictions by providing the change to HighTower in writing. HighTower reserves the right to refuse to open an account or to terminate an account if it is believed, in HighTower's sole opinion, that the restrictions placed are excessive and would limit its abilities to manage the account effectively and prudently. Clients should also understand that the imposition of portfolio restrictions may affect performance of the affected portfolio(s), either positively or negatively.

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### **ITEM 17 - VOTING CLIENT SECURITIES**

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HighTower has express authority to vote proxies on behalf of clients in compliance Advisers Act Rule 206(4)-6, unless otherwise stated in the Client Advisory Agreement. Risk Metrics Group/Institutional Shareholder Services, Inc. ("ISS") has been engaged as a third party to vote proxies to mitigate risks involved with any conflicts of interest that might otherwise arise in the voting of client proxies. HighTower does not charge an additional fee for this service.

Proxies are assets of HighTower's Advisory Clients that must be voted with diligence, care, and loyalty. HighTower will vote each proxy in accordance with its fiduciary duty to its Advisory Clients. HighTower will seek to vote proxies in a way that maximizes the value of Advisory Clients' assets. However, HighTower will document and abide by any specific proxy voting instructions conveyed by an Advisory Client with respect to that Advisory Client's securities.

Absent specific Advisory Client instructions, HighTower has adopted the following proxy voting procedures designed to ensure that proxies are properly identified and voted, and that any conflicts of interest are addressed appropriately:

- As part of the account opening process, HighTower and/or the Approved Custodian will code the account and notify ISS of accounts for which HighTower will vote proxies.
- If an Advisory Client gives specific proxy voting instructions, the Advisory Client must inform the HighTower
- If an Advisory Client declines to assign proxy voting authority to HighTower during the account opening process, proxies will be sent to the address of record by default. If proxy materials are inadvertently received by a HighTower, Hightower or designee will return the materials to the sender along with a statement that HighTower does not have authority to vote proxies for that Advisory Client and that future materials should not be sent to HighTower.
- Proxies received after an Advisory Client terminates its advisory relationship with HighTower will not be voted. HighTower or designee will promptly return such proxies to the sender, along with a statement indicating that HighTower's advisory relationship with the Advisory Client has terminated, and that future proxies should not be sent to HighTower.

#### Class Actions

HighTower does not direct Advisory Clients' participation in class actions. HighTower shall forward any class action documentation inadvertently received to the appropriate Advisory Clients. These policies have been written and in place in accordance with Rule 206(4)-6 and HighTower acts in accordance with those procedures.

To learn how proxies for a particular vote were entered, please contact: [Compliance@HighTowerAdvisors.com](mailto:Compliance@HighTowerAdvisors.com), or by phone at 312.962.3800. In most instances, proxies will be voted the same for all client accounts held by HighTower at our various custodians. Proxy paperwork will be sent to ISS by the client's custodian and the client will not receive copies. In the case of accounts managed by Money Managers, proxies will be voted by the Money Manager.

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## ITEM 18 - FINANCIAL INFORMATION

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HighTower is not required to include a balance sheet for our most recent fiscal year end because we do not require or solicit more than 1,200 in fees per client, six months or more in advance. In this Item, we are required to disclose that HighTower has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients. Additionally, HighTower has not been the subject of a bankruptcy petition during the past ten years.