



## Hilltop Securities Independent Network Inc. Firm Disclosure Brochure

Hilltop Securities Independent Network Inc.  
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Revised March 31, 2016

This Disclosure Brochure provides information about the qualifications and business practices of Hilltop Securities Independent Network Inc. This information should be considered before becoming a Client. If you have any questions about the contents of this Disclosure Brochure, please contact us at 214-859-6735 or [FormADV2@hilltopsecurities.com](mailto:FormADV2@hilltopsecurities.com).

This information has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. Additional information about Hilltop Securities Independent Network Inc. is available on the Securities and Exchange Commission's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You may search this website by our unique identifying number, known as an IA number. The IA number for Hilltop Securities Independent Network Inc. is 801-60812. Registration does not imply a certain level of skill or training.

## Summary of Material Changes

*Updated March 31, 2016*

This Brochure has been updated with the following material Changes that have occurred since the last Client Disclosure Brochure update on October 5, 2015.

*As a result of the merger with First Southwest Company, LLC on January 22, 2016, the disciplinary history of First Southwest Company, LLC has been incorporated into the Hilltop Securities Independent Network Inc. brochure. A complete listing of the Disciplinary Disclosures can be found on page 21 of the Hilltop Securities Independent Network Inc. Disclosure Brochure.*

*In addition, the following disclosures have been added since the merger of the Hilltop Securities and First Southwest Company, LLC.*

*In February 2016, the SEC instituted a cease-and-desist proceeding against affiliate SWST (Now HTS). The SEC found that SWST willfully violated section 17(A)(2) of the Securities Act by conducting inadequate due diligence in certain offerings and as a result failed to form a reasonable basis for believing the truthfulness of certain material representations in official statements issued in connection with those offerings. This resulted in the firm offering and selling municipal securities on the basis of materially misleading disclosure documents. The violations were self-reported by SWST to the commission pursuant to the SEC's municipalities continuing disclosure cooperation initiative (MCDC). The firm was censured and paid a fine in the amount of \$360,000 and is required to retain an independent consultant to conduct a review of the firm's policies and procedures as they relate to municipal securities underwriting due diligence.*

*In March 2016, the SEC instituted a cease-and-desist proceeding against affiliate, FSC. The SEC identified violations by FSC relating to the Fair Dealing and Financial Advisory Agreement rules of the MSRB in connection with financial advisory services rendered by FSC to its municipal client during the time frame March through November 2010. Specifically, during the aforementioned time frame FSC rendered advisory services to the municipal client in connection with a 2010 bond issuance but failed to memorialize, through a written agreement, the specific services or tasks that FSC would provide in connection with the bond issuance until seven months into the financial advisory relationship. FSC was ordered to pay disgorgement of \$120,000, prejudgment interest in the amount of \$22,400 and a civil money penalty in the amount of \$50,000.*

You may request a copy of our current Client Disclosure Brochure at any time, without charge, by calling Hilltop Securities Independent Network Inc. at 214-859-6735 or e-mailing us at [FormADV2@hilltopsecurities.com](mailto:FormADV2@hilltopsecurities.com). You can also obtain a copy of the most current disclosure brochure by going to the Investment Adviser Public Disclosure website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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On January 1, 2015, SWS Group, Inc., the parent company of SWSFS Financial Services, Inc. ("SWSFS") and Southwest Securities, Inc. (SWST), was acquired and was merged into Hilltop Securities Holdings LLC ("Hilltop Securities"), a wholly owned subsidiary of Hilltop Holdings Inc. ("Hilltop"). As a result of this transaction, SWSFS Financial Services, Inc. and Southwest Securities, Inc. became indirect, wholly owned subsidiaries of Hilltop. On October 5, 2015 SWSFS Financial Services, Inc. changed its name to Hilltop Securities Independent Network Inc. (HTIN) and Southwest Securities, Inc. changed its name to Hilltop Securities Inc. (HTS).

In addition, Hilltop was the parent of First Southwest Company, LLC (FSC), a broker-dealer established in 1946. With complementary business lines and a shared history representing more than 112 years of industry experience, Southwest Securities and FirstSouthwest were combined under the HilltopSecurities brand to create a new, stronger firm backed by a well-capitalized, publicly traded parent company to serve as trusted advocates for our clients. The consolidation of these firms represents the blending of two traditions of innovation, integrity and service.

## **Advisory Business**

Hilltop Securities Independent Network Inc. ("HTIN") is a full service broker-dealer and registered investment adviser, serving the investment and capital needs of individual, corporate and institutional clients, as well as qualified accounts ("Client").

HTIN, as a full service broker-dealer, provides brokerage, and execution services to its Clients. It is registered with the United States Securities and Exchange Commission ("SEC") pursuant to the Securities Exchange Act of 1934, and is a member of the Financial Industry Regulatory Authority ("FINRA") and the Securities Investor Protection Corporation ("SIPC").

HTIN is also an investment adviser registered with the SEC pursuant to the Investment Advisers Act of 1940. HTIN, a Texas corporation, is a wholly owned subsidiary of Hilltop Securities Holdings LLC.

As of December 31, 2015, HTIN has \$244,586,130 under management; \$217,216,968 on a non-discretionary basis and \$27,369,161 on a discretionary basis.

In comparing account types and managed account programs ("Programs") and their relative costs, you should consider various factors, including but not limited to, the range of investment products available in each Program, preference for an advisory or brokerage relationship, and preference for fee-based or commission-based relationship.

HTIN makes a number of Programs available. The accounts managed by HTIN are generally not intended to provide you with a complete investment program, and HTIN expects that the assets it manages does not represent all of your assets. You should be aware that fees charged for these Programs may be higher or lower than those otherwise available if you were to select separate brokerage services and negotiate commission in the absence of the extra advisory services available.

The fee schedules of HTIN are subject to negotiation, depending upon a range of factors including, but not limited to, total account values ("Account Values") and overall range of services provided.

Each HTIN managed account is assigned to an Investment Adviser Representative ("IAR"). Any IAR of HTIN who provides investment advice for a fee is required to meet the appropriate states' regulatory requirements which may include an administered exam or an approved designation in lieu of an exam.

A number of the advisory programs available to Clients of HTIN are sponsored by Hilltop Securities Inc., ("HTS"), an affiliate of HTIN. Registration of an Investment Adviser does not indicate a higher level of skill or training.

Services provided as part of the fee for advisory accounts include:

- Access to an IAR for personal service and financial advice
- A suitability review based on client provided information in advisory agreements, new account forms and Client interviews
- Portfolio management services
- Quarterly and/or monthly account statements
- Performance reports available on demand
- Execution of Client portfolio transactions
- Custodial services
- Advisory Fee billing

## ***Partner***

The Partner Program ("Partner") is an investment advisory program ("Advisory Program") which enables your IAR to provide investment advice through an account with access to a wide spectrum of investments choices to help achieve portfolio diversification. Within the Partner Program, your IAR assists you in developing a personalized investment portfolio using a variety of security types. Your IAR obtains the necessary financial data from you, and assists you in determining the suitability of the advisory services and selecting the appropriate investment objective. Your IAR provides ongoing investment advice and management tailored to your individual needs.

In addition to the asset-based fee for advisory services, you may also be charged various, exchange fees and postage, handling and insurance charges on each transaction executed in your account(s). Assets are held and custodied by HTS, a full service broker-dealer.

\*HTIN offers a limited discretionary service in the Partner Program and that is only available to a limited number of IARs and Clients who meet certain suitability and eligibility standards.

## **Unsolicited Transactions**

The advice and counsel of your IAR is a critical service of your Partner account. Solicited transactions will be made based on the recommendations that they make to you. Unsolicited transactions are made you direct the trades without advice or counsel from your IAR. For these unsolicited trades, your IAR did not act as your IAR and these transactions are your responsibility.

An unsolicited trading pattern may indicate that the Partner account is no longer appropriate for you as you are not leveraging the advice of your IAR. This may result in the termination of your Account from the Program.

After you have executed an unsolicited transaction without our advice, for so long as you hold that position in your Partner Account, we will take that asset into consideration:

- as part of your overall account assets,
- when we give you periodic asset allocation advice,
- when we value your account holdings,
- when we provide you with analyses and reports on your account's performance, and

- we may also make recommendations that you consider selling the asset, if and when we deem it appropriate.

We will include any security you acquire in an unsolicited transaction as part of your account assets for calculating your Advisory fee. If you continue to hold the asset in your account it will continue to be part of the calculation for your Program Fee.

## ***Advantage***

The Advantage Program is a non-discretionary Mutual Fund/ Exchange Traded Fund (“ETF”) portfolio Advisory Program sponsored and administered by HTS and made available to advisory Clients of HTIN through a co-advisory agreement between HTS and HTIN. The asset allocation model includes a variety of asset types that, together, offer appropriate diversification to accommodate each investment objective. Where appropriate, multiple funds may be selected for a style to provide additional diversification.

The service begins with a consultation between you and the IAR to review your investment objectives, financial circumstances and risk tolerance. You are asked to complete a Client Profile/Questionnaire (“Client Profile”) to document the results of this assessment. After reviewing the results of the Client Profile, the IAR will analyze and review each Client’s individual financial situation and investment objectives to determine the asset allocation model most appropriate for their needs. HTS will identify and select various mutual funds and ETFs to be made available to you under the Advantage Program. You, with the assistance of your IAR, will be responsible for the selection of investments and for the allocation of program assets among the various investments identified by HTS. You, the Client, are free at all times to accept or reject any recommendation from HTIN, and you have the sole authority with regard to the implementation. You agree to immediately notify your IAR of any change in your financial situation or investment objectives.

Additional information regarding the Advantage Program can be found in the HTS Managed Account Client Disclosure Brochure.

## ***Russell Strategies***

The Russell Strategies Program is a discretionary asset allocation investment program sponsored and administered by HTS and made available to advisory Clients of HTIN through a co-advisory agreement between HTS and HTIN. The Program gives you the opportunity to allocate assets among various mutual fund portfolios of the Russell Investment Company (“Russell”). Russell is registered under the Investment Company Act of 1940. Russell determines the asset allocation and fund selection for the Russell Model Strategies. You may select a Strategy and appoint HTS to manage the portfolio on a discretionary basis.

The service begins with a consultation with your IAR to review your investment objectives, financial circumstances and risk tolerance. You are asked to complete a Client Profile/Questionnaire (“Client Profile”) to document the results of this assessment. After reviewing the results of the Client Profile, your IAR will recommend a target allocation of Russell Funds. These allocations seek to appropriately balance your financial objectives with your risk tolerance as part of an investment strategy. You agree to immediately notify your IAR of any change in your financial situation.

Additional information regarding the Russell Strategies Program can be found in the HTS Managed Account Client Disclosure Brochure.

## ***Premier Advisors***

The Premier Advisors Program is a discretionary investment Advisory Program sponsored by HTS and made available to advisory Clients of HTIN through a co-advisory agreement between HTS and HTIN. The Premier Advisors program provides you access to a broad selection of Separately Managed Accounts (“SMAs”). In SMAs, you are offered access to actively manage investment portfolios managed by independent Investment Managers. Unlike a mutual fund, where funds are comingled, an SMA is a portfolio of individually owned securities that can be tailored to fit the Client’s investing preferences. The Investment Managers who may be selected for these Programs employ different methods of analysis that are described in each Investment Managers’ Disclosure Brochure.

Additional information regarding the Premier Advisors Program can be found in the HTS Managed Account Client Disclosure Brochure.

## ***Direct Access***

The Direct Access program is an investment advisory program sponsored by HTS (“Sponsor”) that provides you access to a selection of Investment Managers and Third Party Strategists (“Strategists”) managed on a discretionary basis. HTS IAR’s assists you in selecting one or more investment managers and/or Strategists from a roster based on your financial situation, investment objectives and risk tolerance. HTS also provides you with monitoring and reporting of portfolio performance on a periodic basis.

Additional information regarding the Direct Access Program can be found in the HTS Managed Account Client Disclosure Brochure.

## **Fees and Compensation**

The fee schedules, shown in the tables below, are based on Account Value and are negotiable. The fee schedules for Partner, Advantage, Direct Access and Russell are not applied incrementally; the corresponding rate is applied to the entire Account Value in determining the fee. The fees do not cover the fees and expenses of any underlying ETFs, closed-end funds, mutual funds, unit investment trusts (“UITs”) or exchange traded notes (“ETNs”) or fees for ancillary services such as wire transfers, returned checks, etc. nor does it cover all applicable exchange fees or option reporting fees. Your program fee will not be adjusted for no or low trading.

The fees are calculated using the market value of the account on the last day of the preceding quarter. The fee is applied to the account each calendar quarter, on a pro-rated quarterly basis and is billed in advance. A portion of any fees received by HTIN may be paid to your IAR. HTIN may keep between 0 to 100% of the fee and pay the remaining portion to the IAR as agreed upon with each IAR. This amount may vary depending on a number of factors including negotiated agreements, assets under management or other factors as determined by HTIN.

<b>Partner Maximum Annualized Fee Schedule</b>		
<b>Total Account Value</b>	<b>Individual Securities Accounts Fees</b>	<b>Mutual Fund/ETF/UIT Accounts</b>
Up to \$249,999	2.25%	1.75%
\$250,000 - \$499,999	2.00%	1.50%
\$500,000 - \$999,999	1.75%	1.25%
\$1,000,000 and over	1.50%	1.00%

*\*\* If you make any single deposit or any single withdrawal of \$30,000 or more of cash and/or securities, you will be debited or credited a pro-rated fee on the market value of the assets. The pro-rated amount will be due as of the date you deposit the additional assets into your account or you will receive a pro-rated adjustment or refund of any prepaid fee as of the date of the withdrawal. HTS will retain between .10% and 25% of the fee assessed to the Client for administrative services provided.*

Advantage Maximum Annualized Fee Schedule	
Total Account Value	Fee
Up to \$249,999	1.75%
\$250,000 - \$499,999	1.50%
\$500,000 - \$999,999	1.25%
\$1,000,000 and over	1.00%

*\*\* If you make any single deposit or any single withdrawal of \$30,000 or more of cash and/or securities, you will be debited or credited a pro-rated fee on the market value of the assets. The pro-rated amount will be due as of the date you deposit the additional assets into your account or you will receive a pro-rated adjustment or refund of any prepaid fee as of the date of the withdrawal. HTS will retain between .10% and 25% of the fee assessed to the Client as sponsor of the program.*

Russell Maximum Annualized Fee Schedule	
Total Account Value	Fee
Up to \$249,999	1.75%
\$250,000 - \$499,999	1.50%
\$500,000 - \$999,999	1.25%
\$1,000,000 and over	1.00%

*\*\* If you make any single deposit or any single withdrawal of \$30,000 or more of cash and/or securities, you will be debited or credited a pro-rated fee on the market value of the assets. The pro-rated amount will be due as of the date you deposit the additional assets into your account or you will receive a pro-rated adjustment or refund of any prepaid fee as of the date of the withdrawal. HTS will retain between .10% and 25% of the fee assessed to the Client as sponsor of the program.*

Total Account Value	Direct Access Maximum Annualized Fee		
	ETF/Equity/Balanced Portfolios	Fixed Income Portfolios	Mutual Funds
Up to \$249,999	3.00%	1.65%	1.75%
\$250,000 to \$499,999	2.50%	1.50%	1.50%
\$500,000 to \$999,999	2.00%	1.35%	1.25%
\$1,000,000 and up	1.85%	1.15%	1.10%

*\*\*If you make any single deposit or any single withdrawal of \$30,000 or more of cash and/or securities, you will be debited or credited a pro-rated fee on the market value of the assets. The pro-rated amount will be due as of the date you deposit the additional assets into your account or you will receive a pro-rated adjustment or refund of any prepaid fee as of the date of withdrawal.*

### Premier Advisors Program Fees

The Premier Advisors Program charges an annual fee, out of which HTS pays for all portfolio management and administration (including Envestnet, Envestnet Manager Fees, and fees payable to the Sponsor and IARs as well as costs for transaction execution, clearing, custody and reporting). The sub-manager's fee will generally fall within a range of 0.15% to 0.75% (annual rate) of assets under management. The fee payable to HTS, as the Sponsor will generally fall within a range of 0.10% to 0.38% (annual rate) of assets under management. The program fee will not be adjusted if the manager trades away from HTIN.

Where applicable, HTIN may also receive a portion of the fee for providing advisory services to Clients introduced to the program. The amount retained is typically the amount remaining after the deduction of fees payable to individual portfolio managers and fees payable to HTS for clearing, program administration



and sponsorships. The HTIN portion of the fee will generally fall within a range of 0.50% to 1.75% (annual rate) of assets under management. The level of fees will vary with the amount of assets under advisement in the Premier Advisors Program and the particular investment styles and investment options chosen or recommended.

The standard fee schedule for the Premier Advisors Program services is set forth below, but may be negotiable in individual cases:

Premier Advisors Program Fee		
Total Account Value	Maximum Annualized Fee for Equity/Balanced Portfolios	Maximum Annualized Fee for Fixed Income Portfolios
First \$ 250,000	2.90 – 3.00%	1.55 – 1.65%
Next \$ 250,000	2.40 – 2.50%	1.40 – 1.50%
Next \$ 500,000	2.15 – 2.25%	1.25 – 1.35%
Next \$ 4,000,000	1.90 – 2.00%	1.05 – 1.15%
Over \$5,000,000	1.75 – 1.85%	0.90 – 1.00%

*\* The total fee actually charged to the Client's account(s) may vary depending upon the selection of sub-managers and allocation of total portfolio assets thereto, the total amount of portfolio assets in the program and other factors.*

### **Additions and Withdrawals from a Premier Advisors Account**

If you make a deposit or withdrawal of \$10,000 or more during a fee period, you will be debited or credited a pro-rated fee on the market value of the assets. The pro-rated amount will be due on the date you deposit the additional assets into your account or you will receive a pro-rated adjustment of refund of any prepaid fee.

### **Additional Information Regarding Fees and Compensation**

You should be aware that commissions or program fees charged may be higher or lower than those otherwise available if you were to select a separate brokerage service and negotiate commissions in the absence of the extra advisory services provided. Our fee schedules are subject to negotiation, depending upon a range of factors including, but not limited to, Account Values and overall range of services provided.

Program fees do not cover exchange or similar fees (such as for American Depositary Receipts) charged by third parties, including issuers, foreign taxes and fees required by the SEC or option reporting. In addition, Clients participating in program accounts may also be subject to various other fees, including but not limited to, postage, handling and insurance charges on each transaction executed in their account(s), wire fees, and overnight fees. These charges are described in the Customer Information Brochure provided to all Clients on account opening and annually thereafter.

You should consider the value of these advisory services when making comparisons. The combination of custodial, advisory and brokerage services may not be available separately or may require multiple accounts, documentation and fees. You should also consider the amount of anticipated trading activity when selecting among the programs and assessing the overall cost. Advisory Programs typically assume a normal amount of trading activity and, therefore, under particular circumstance, prolonged periods of inactivity or asset allocations with significant fixed income or cash weightings may result in higher fees than if commissions were paid separately for each transaction.

If you liquidate securities prior to initiating or after terminating program service, you will be subject to customary brokerage charges with respect to that transaction, in addition to any program fees that are applicable during the period.

For all Programs, cash or money market investments will be included in the determination of your Account Value. Cash balances will be invested in one of several sweep options, which include money market funds, upon your affirmative written consent. These sweep options included the Bank Insured Deposit, Dreyfus General Money Market Fund or other selections. The Bank Insured Deposit ("BID") is a program which involves a series of FDIC insured bank accounts maintained at various participant banks, including PlainsCapital Bank, an affiliate of HTS. HTS anticipates receiving fees, including fees for administrative services and other financial benefits for providing sweep funds to the BID. HTS anticipates that PlainsCapital Bank may receive a financial benefit from the use of sweep funds, such as net interest income. A portion of fees received may be paid to HTIN or its IARs. HTS has additional arrangements with Dreyfus Funds or other funds to receive compensation based on assets invested in their respective money market funds. This compensation may be shared with HTIN or its IARs. Complete sweep account disclosures and a list of the participant banks available in BID are available at <http://www.hilltopsecurities.com/hilltop-securities-inc-disclosures/sweep-account-disclosure/> under the Sweep Account Disclosure selection. Also, complete sweep account disclosures, are contained in HTIN's Customer Information Brochure. Any sweep compensation is in addition to any Program fees.

Your IAR may have a financial incentive to recommend a fee-based Advisory Program rather than paying for investment advisory services, brokerage, performance reporting and other services separately. A portion of the annual advisory fee is paid to your IAR, which may be more than the IAR would receive under an alternative program or if you paid for these services separately. Therefore, your IAR may have a financial incentive to recommend a particular account program over another. In addition, your IAR may receive incentive compensation for utilizing a particular account program. Such incentive compensation is generally available as follows:

IARs utilizing any of the previously mentioned account programs offered by HTIN generally receive compensation in the form of asset-based fees, and this compensation is typically credited to the IAR on a quarterly basis. Such compensation may be more than the representative would receive if Clients participated in other programs or paid separately for investment advice, brokerage and other services and, therefore, the representatives may have a financial incentive to recommend the advisory programs over other services.

IARs are typically compensated based on their annual gross production, whereby higher gross production will generally result in higher payouts. These compensation programs constitute a targeted payout increase to certain qualified IARs based on economies of scale achieved by HTIN, its affiliates, and IARs at increasing asset levels. However, such compensation arrangements may represent a conflict of interest where an IAR may be incentivized to recommend an asset-based fee account program rather than recommending an alternative product or service, if comparable or if available separately to Clients. Clients should be aware of such arrangements and should consult their IAR for additional details regarding the IAR's compensation levels in fee-based accounts.

You should be aware that only those mutual fund companies with which HTIN has a selling agreement will be available for purchase within the programs available through HTIN and are generally limited to those fund companies that provide HTIN marketing service and support fees. As a result, not all mutual funds available to the investing public will be available for investment. However, HTIN has selling agreements with over 300 fund companies.

You should be aware that mutual funds contain internal expenses which are apart from and in addition to Program Account fees and which are described in the respective funds' prospectuses. Certain funds offered

in a Program, while not having sales charges or having sales charges waived, may assess distribution fees, such as those assessed pursuant to SEC Rule 12b-1 of the Investment Company Act of 1940, as amended (“12b-1 Fees”) which may be paid to HTIN. You understand and acknowledge that HTIN will retain any fees, including but not limited to 12b-1 Fees, that are paid by such mutual funds and further acknowledge that any reduction in fees charged to accounts containing any mutual fund is intended to offset any 12b-1 Fee that may be payable by a mutual fund in which your Program Account is invested. A portion of these 12b-1 Fees may be paid to the IAR. You are referred to the respective mutual fund prospectuses for detailed information about such fees.

As part of its fiduciary duties to Clients, HTIN endeavors at all times to put the interests of its advisory Clients first. You should be aware, however, that the receipt of economic benefits by HTIN (or its related persons) in and of itself creates a potential conflict of interest.

While certain account minimums are set for each advisory account program, your IAR may elect to recommend a program based on his or her understanding of and familiarity with the various services offered within a particular program. Because each Advisory Program is unique and offers a different bundle of services, the standard advisory fee you pay is allocated within HTIN differently from one program to another. The compensation received by the IAR may be higher in a particular program relative to another, and this compensation may fluctuate based on certain minimum clearing or retention rates assigned by the IAR’s broker-dealer. These clearing and retention rates are a component of, and not in addition to, the overall advisory fee paid, and generally are higher as a percentage of the overall advisory fee paid by the Client for smaller accounts. As a result, an IAR may have a disincentive to recommend certain of the aforementioned Advisory Programs to Clients with smaller accounts that otherwise would meet the standard account minimum for each respective Advisory Program. Therefore, this may cause a conflict to exist with respect to the level of investment diversification a Client may achieve.

HTIN has entered into Financial Institution Service Agreements (“Service Agreements”) with unaffiliated financial institutions (“UFIs”), such as banks and credit unions. Pursuant to the Service Agreements, HTIN through its IARs, may offer advisory services on the premises of the UFI. HTIN may also share compensation with the UFI, including a portion of the advisory fees (generally ranging from 40% to 100%), for the use of the UFI’s facilities and for Client referrals. Therefore, the UFI may have a financial incentive to recommend an HTIN IAR over other IARs.

Under a Service Agreement, advisory services are offered by HTIN and not the UFI. Any securities recommended by HTIN and its IARs as part of any investment advice are not guaranteed by the UFI or insured by the Federal Deposit Insurance Corporation (“FDIC”) or any other federal or state deposit guarantee fund relating to financial institutions.

## **Tailoring of Advisory Programs and Reasonable Restrictions**

For all Advisory Programs offered by HTIN, you will select the IAR with whom you wish to work. Your IAR will assess your prior investment experience, financial goals, time, horizon, risk tolerance and investment objectives to determine the appropriate program for you.

You may request that reasonable restrictions be imposed on the management of your account. Reasonable restrictions generally include the designation of particular securities or types of securities that should not be purchased for your account. If your restrictions are unreasonable or if HTIN, or your IAR, believe that the restrictions are inappropriate, we may remove your account from the program.

HTIN may liquidate preexisting positions in your portfolio immediately and bring the account into conformity with your target allocations so If you wish to hold certain positions for tax and investment purposes, you should consider holding these positions in a separate account.

## **Account Termination**

Client agreements may be terminated by either party at any time. Upon termination, you are responsible for monitoring and managing the securities in your portfolio, and you will be subject to customary brokerage charges. Neither HTIN, your IAR nor other outside investment managers will have any further obligation to act on advice with respect to those assets. Any unused portion of the prepaid quarterly fee will be refunded and credited to your account. Such refunds will be pro-rated based on the number of days remaining in the calendar quarter for which you prepaid a fee.

If you choose to terminate your agreement with any of our Advisory Programs, HTIN can liquidate your account if you instruct us to do so. If so instructed, we will liquidate your account in an orderly and efficient manner. We do not charge for such redemption; however, you should be aware that certain mutual funds impose redemption fees as stated in their fund prospectus. You should also keep in mind that the decision to liquidate security issues or mutual funds may result in tax consequences that should be discussed with your tax advisor.

## **Portfolio Manager Selection and Evaluation**

A description of how HTS selects and reviews Investment Managers is included in each Program subsection under Advisory Business of this Disclosure Brochure.

## **Conflicts of Interest**

Conflicts of interests can arise with respect to a variety of business and other relationships in almost any investment advisory program. Please refer to the “Other Financial Industry Activities and Affiliations” section under the “Additional Information” heading below for discussion of conflicts of interest relationships and product-specific compensation that is received by HTS.

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

HTIN does not charge for performance-based fees in any of its managed account programs.

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

HTIN generally provides investment advisory services for individuals, individual retirement accounts (“IRAs”), banks and thrift institutions, pension and profit sharing plans, including plans subject to Employee Retirement Income Security Act of 1974 (“ERISA”), trusts, estates, charitable organizations, state and municipal government entities, corporations and other business entities. HTIN can prohibit anyone or any account type from establishing a Program Account for any reason, including if we believe it is not an appropriate investments strategy for you.

The minimum initial Account Values for the Programs described in this document are listed below. We may terminate Client accounts by written notice if Account Values fall below the minimum Account Value guidelines established by HTIN. Under certain circumstances, an exception to the minimum account value may be granted.

Program Name	Minimum Account Value
Partner	\$50,000 (\$30,00 if mutual Funds, ETFs and UITs)
Advantage	\$30,000
Russell Strategies	\$30,000
Premier Advisors	\$100,000 (Subject to Managers' Minimum)
Direct Access	\$100,000 (Subject to Managers' Minimum)

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

Each IAR has the independence to take the approach he or she believes is most appropriate when analyzing investment products and strategies for Clients. There are several sources of information that HTIN and its IARs may use as part of the investment analysis process. These sources include, but are not limited to:

- Financial publications
- Research materials prepared by third parties
- Corporate rating services
- SEC Filings (annual reports, prospectus, 10-K, etc.)
- Company press releases
- Regulatory and self-regulatory reports
- Other public sources

As a broker-dealer and registered investment advisor, HTIN does not favor any specific method of analysis over another and therefore would not be considered to have one approach deemed to be a “significant strategy.” There are, however, a few common approaches that may be used by HTIN or your IAR, individually or collectively, in the course of providing advice to Clients. Please note that there is no investment strategy that will guarantee a profit or prevent loss. Following are some common strategies employed in the management of Client accounts:

- **Dollar Cost Averaging (“DCA”):** The technique of buying a fixed dollar amount of a particular investment on a regular schedule, regardless of the share price. More shares are purchased when prices are low, and fewer shares are bought when prices are high. Periodic investment programs cannot guarantee a profit or protect against a loss in a declining market. Dollar cost averaging is a long-term strategy that involves continuous investing, regardless of fluctuating price levels, and, as a result, you should consider your financial ability to continue to invest during periods of fluctuating price levels.
- **Asset Allocation:** An investment strategy that aims to balance risk and reward by allocating assets among a variety of asset classes. At a high level, there are three main asset classes—equities (stocks), fixed income (bonds), and cash/cash equivalents—each of which has different risk and reward profiles/behaviors. Asset classes are often further divided into domestic and foreign investments, and equities are often divided into small, intermediate, and large capitalization. The general theory behind asset allocation is that each asset class will perform differently from the others in different market conditions. By diversifying a portfolio of investments among a wide range of asset classes, IARs may seek to reduce the overall volatility and risk of a portfolio by avoiding overexposure to any one asset class during various market cycles. Asset allocation does not guarantee a profit or protect against loss.
- **Technical Analysis (a.k.a. “Charting”):** A method of evaluating securities by analyzing statistics generated by market activity, such as past prices and volume. Technical analysts do not attempt to

measure a security's intrinsic value. Instead, they use charts and other tools to identify patterns that can suggest future activity. When looking at individual equities, a person using technical analysis generally believes that performance of the stock, rather than performance of the company itself, has more to do with the company's future stock price. It is important to understand that past performance does not guarantee future results.

- **Fundamental Analysis:** A method of evaluating a security that entails attempting to measure its intrinsic value by examining related economic, financial, and other qualitative and quantitative factors. Fundamental analysts attempt to study everything that can affect the security's value, including macroeconomic factors (e.g., the overall economy and industry conditions) and company-specific factors (e.g., financial condition and management). The end goal of performing fundamental analysis is to produce a value that an investor can compare with the security's current price, with the aim of figuring out what sort of position to take with that security (underpriced = buy, overpriced = sell or short). This method of security analysis is considered to be the opposite of technical analysis.
- **Quantitative Analysis:** An analysis technique that seeks to understand behavior by using complex mathematical and statistical modeling, measurement, and research. By assigning a numerical value to variables, quantitative analysts try to replicate reality mathematically. Some believe that it can also be used to predict real-world events, such as changes in a share price.
- **Qualitative Analysis:** Securities analysis that uses subjective judgment based on non-quantifiable information, such as management expertise, industry cycles, strength of research and development, and labor relations. This type of analysis technique is different from quantitative analysis, which focuses on numbers. The two techniques, however, are often used together.

HTIN may use the following investment strategies, as appropriate, when managing Client assets:

- **Long-term Purchases:** Where appropriate, HTIN employs a long-term investment strategy when formulating the investment advice given to Clients. This entails the purchase of securities with the idea of holding them in your account for a year or longer. We may do this because we believe the securities to be currently undervalued. We may do this because we want exposure to a particular asset class over time, regardless of the current projection for this class. A risk in a long-term purchase strategy is that, by holding the security for this length of time, HTIN may not take advantages of short-term gains that could be profitable to you. Moreover, if our predictions are incorrect, a security may decline sharply in value before we make the decision to sell.
- **Short-term Purchases:** Where appropriate, HTIN may also purchase securities with the idea of selling them within a relatively short time (typically a year or less). We do this in an attempt to take advantage of conditions that we believe will soon result in a price swing in the securities we purchase. A risk in a short-term purchase strategy is that, should the anticipated price swing not materialize, we are left with the option of having a long-term investment in a security that was designed to be a short-term purchase, or potentially taking a loss. In addition, this strategy involves more frequent trading than does a longer-term strategy, and may result in increased brokerage and other transaction-related costs, as well as less favorable tax treatment of short-term capital gains.
- **Short Sales:** A short sale is a transaction in which you sell a security that you do not own. HTIN may borrow shares of a stock for your portfolio from someone who owns the stock on a promise to replace the shares on a future date at a certain price. We then sell the shares we have borrowed. On the agreed-upon future date, we buy the same stock and return the shares to the original owner. We

engage in short selling based on our determination that the stock will go down in price after we have borrowed the shares. If the stock has gone down since we purchased the shares from the original owner, the Client keeps the difference. There may be certain costs associated with the securities that HTIN borrows on your behalf, and you agree to pay such costs.

One risk in selling short is that losses are theoretically unlimited; we are obligated to repurchase the stock no matter how much the price has climbed. In addition, even if we are correct in determining that the price of a stock will decline, we run the risk of incorrectly determining when the decline will take place. Short selling may not be appropriate in times of inflation, as prices may adjust upwards regardless of the value of the stock.

For more information relating to risks and costs of short sales, please refer to the Hilltop Securities Customer Information Brochure.

- **Margin:** Leverage strategies such as using margin may be desirable in some cases but is generally not recommended for Advisory accounts. If your account is approved for margin trading, you may be required to deposit additional securities or cash on short notice to maintain your position and/or to maintain sufficient assets to meet firm requirements. If you do not meet requirements in the required time frame, HTIN may liquidate all or a portion of your holdings. You will be liable for any resulting deficit in your account. Margin trading can work against you as well as for you, for example, larger losses as well as the potential for larger gains. Before you begin using margin, please read the "Margin Disclosure" brochure available from your IAR. Maintaining a margin account balance will also increase the wrap fee to the extent of the margin exposure. It is important that you fully understand the risks involved in trading securities on margin. These risks include but are not limited to the following:
  - You can lose more funds than you deposited in the margin account.
  - HTIN can force the sale of securities or assets in your account and in some cases without contacting you.
  - You will pay interest on the outstanding margin loan balance.
  - The use of margin may have a positive or negative performance affect, net of interest charges and other account fees that may be greater as a consequence of using margin. As a result, gains or losses in a leveraged managed account may be greater than would be the case with an unleveraged managed account.

For more information relating to risks and costs of margin, please refer to the Hilltop Securities Customer Information Brochure.

- **Options:** Certain types of option trading are permitted in order to generate income or hedge a security held in the Partner Program; namely, the selling (writing) of covered call options or the purchasing of put options on a security held in the program account. You should be aware that the use of options involves additional risks. The risks of covered call writing include the potential for the market to rise sharply. In such case, the security may be called away and the program account will no longer hold the security. The risk of buying long puts is limited to the loss of the premium paid for the purchase of the put if the option is not exercised or otherwise sold by the program account. Options involve risk and are not suitable for all investors. You should read "Characteristics and Risks of Standardized Options" brochure provided by your IAR. There may be certain costs associated with options trading and you agree to pay such costs.

## Risk of Loss

You should understand that all investments involve a certain amount of risk. Investment performance can never be predicted or guaranteed and the values of your accounts will fluctuate due to market conditions and other factors. You should also understand that HTIN makes no representations or warranties with respect to the present or future level of risk or volatility in, or the future performance of your account. You should further understand that you are assuming the risks involved with investing in securities and other investment products, and should understand that you could lose all or a portion of the amount held in your account(s).

Below are some of the common risks you should consider prior to investing. This list is not a complete enumeration or explanation of the risks involved and you should consult with your IAR and your legal and tax advisers before investing in any particular strategy.

- **Market risks:** The prices of, and the income generated by, the common stocks, bonds, and other securities you own may decline in response to certain events taking place around the world, including those directly involving the issuers; conditions affecting the general economy; overall market changes; local, regional, or global political, social, or economic instability; governmental or governmental agency responses to economic conditions; and currency, interest rate, and commodity price fluctuations.
- **Small-Cap Risk.** Historically, small-cap stocks have been riskier than large- and mid-cap stocks. Stock prices of smaller companies may be based in substantial part on future expectations rather than current achievements and may move sharply, especially during market upturns and downturns. Small-cap companies themselves may be more vulnerable to adverse business or economic events than larger, more established companies. During a period when small-cap stocks fall behind other types of investments —large-cap stocks, for instance—a Client's small-cap holdings could reduce performance.
- **Fixed Income:** Bonds may "guarantee" return of principal if held to maturity, but any guarantee remains subject to the creditworthiness of the guarantor and, prior to maturity, the bond may be subject to interest rate, inflations and credit risks.
- **International/Global securities** expose the investor to currency risk and political, social and economic risks of the countries in which the securities are domiciled, in addition to the equity or debt nature of the securities involved.
- **Pooled Investments:** Certain strategies may invest in one or more pooled investment funds including mutual funds ETFs, UITs, Real Estate Investment Trusts, etc. You should read the offering documents (e.g., prospectus, offering memorandum, etc.) carefully to fully understand the various risks, investment objectives, expenses and other information about the company associated with the investment.
- **Trading Frequency:** Frequent trading may result in short-term capital gains which are taxed at a higher rate than long term capital gains.
- **Market Trading Risks:** Exchange Traded Funds/Notes face various market trading risks. This may include the potential lack of an active market for Fund shares, losses from trading in the secondary markets, periods of high volatility and disruption in the creation/redemption process of the Fund. Any of these factors, among others, may lead to the Fund's shares trading at a premium or discount to the NAV. For additional information please refer to the Fund's prospectus for more specific market trading risk.



## Disciplinary Events

In May 2006, affiliate SWST (now HTS) reached a settlement agreement with the NYSE permitting employees to engage in the securities business prior to proper registration, failure to obtain written supervisory pre-approval for account designation changes, failure to obtain NYSE approval for supervisory employees who are dually employed, failure to accurately report customer complaints to the NYSE, and failure to exercise reasonable supervision and control when insuring that all branch offices are annually inspected and trade corrections are pre-approved in writing. The firm agreed to a censure and a \$100,000 fine.

In May 2007, affiliate FSC reached a settlement with the NASD which the firm failed to deliver positions in threshold securities at a registered clearing agency for 13 consecutive days and failed to immediately thereafter close out all the fail to deliver positions by purchasing securities of like kind and quantity. The firm agreed to a censure and \$40,000 fine.

In June 2007, the firm reached a settlement with the NASD for failure to properly report trades in the appropriate system within 15 minutes of execution and failure to have adequate supervisory systems in place to reasonably insure compliance with the applicable regulations. The firm agreed to a \$10,000 fine, censure, and to revise its written supervisory procedures regarding trade reporting activity.

In June 2007, affiliate SWST (now HTS) reached a settlement with the NASD for failure to properly register trading personnel as principals, and the failure to detect that individuals charged with the supervision of trading desk activity were not properly registered as supervisors/principals. In addition, the NASD alleged that SWST submitted inaccurate quarterly trading information, and failed to file certain trading activity reports, failed to properly report trades, executed trades at prices that were inferior than those in the prevailing market, and did not have policies and procedures in place reasonably designed to achieve compliance with applicable securities rules and regulations concerning trade reporting. The firm agreed to a censure, \$160,000 fine and to revise policies and procedures regarding the above reference alleged failures within 30 business days.

In July 2007, affiliate FSC reached a settlement with the NASD when they failed to timely file and amend MSRB Form G-36 (official statements). The firm was censured and fined \$50,000.

In July 2007, affiliate FSC reached a settlement with the NASD when they failed to timely report 5.87% of its municipal securities customers transactions and failed to timely report 14.6% of its municipal securities inter-dealer transactions to the MSRB. FSC consented to a censure and fine in the amount of \$110,000.

In September 2007, affiliate SWST (now HTS) reached a settlement with FINRA for failure to make timely MSRB filings related to municipal underwriting. The firm agreed to a \$5,000 fine.

In May 2008, affiliate FSC reached a settlement with the SEC for findings that FSC, without adequate disclosure, intervened in auctions by bidding for its proprietary account to prevent failed auctions and to prevent all-hold auctions and in certain instances, the interventions affected the clearing rate. FSC was ordered to cease and desist from all violative activity and was censured and fined \$150,000.

In May 2008, affiliate SWST (now HTS) reached a settlement with FINRA for failure to preserve accurate order records for 3 years, failure to obtain the best possible price for customers when executing orders, and failure to report trades in a timely and accurate manner through the appropriate reporting systems. FINRA alleged that the firm's supervisory systems were not reasonably designed to achieve compliance with the applicable rules and regulations. The firm agreed to a censure, and a \$67,500 fine.

In July 2008, affiliate SWST (now HTS) reached a settlement with FINRA for failing to timely address deficiencies in three consecutive independent tests of the AML program. The firm agreed to a censure and a \$75,000 fine.

In August 2008, affiliate SWST (now HTS) reached a settlement with FINRA for failing to report some corporate bond transactions and inaccurately reporting others to the trade reporting and compliance engine (TRACE). The firm agreed to a censure and a \$45,000 fine.

In August 2008, the firm reached a settlement with FINRA where the firm allegedly failed to supervise the activities of a registered representative who made unsuitable investment recommendations resulting in losses of over \$54,000 in a customer account. The firm had inadequate procedures to ensure all of its principles were properly registered. The firm failed to follow and enforce its supervisory procedures regarding following up on red flags and activity on exception reports. The firm agreed to a censure and a \$150,000 fine.

In September 2008, the firm reached a settlement with the State of Texas where the firm allegedly failed to review all advertisements utilized by one of its agents regarding seminars conducted by the agent. The firm agreed to a reprimand and a \$35,000 fine.

In December 2008 FSC reached a settlement with FINRA for violations of NASD Rules 2110, 2210 and 3010 during the period May 31, 2006 through February 28, 2008 which related to their communications with the public in its marketing and sale of Auction Rate Securities (ARS). FINRA found that FSC failed to maintain adequate supervisory procedures concerning its sales and marketing activities regarding ARS. The firm used advertising materials for ARS that were not fair and balanced and did not provide a sound basis for evaluating the facts in regarding purchases of ARS. FSC consented to a censure and fine in the amount of \$300,000 and were required to offer to buy back the unsuccessful ARS from the individual investors.

In March 2009, the firm reached a settlement with FINRA where the firm was required to conduct a trade by trade review regarding breakpoint compliance in Class A mutual fund shares which was not accurately completed. The firm agreed to a censure and a \$70,000 fine.

In November 2009, affiliate FSC reached a settlement agreement with NASDAQ for failing to display immediately customer limit orders in NASDAQ securities in its public quotations which each such order was at a price that would have improved the Firm's bid or offer and the national best bid or offer for each such security. FSC consented to censure and fine in the amount of \$12,500.

In November 2009, affiliate SWST (now HTS) reached a settlement with FINRA for failing to report information regarding purchase and sale transactions in the required 15 minute time frame. SWST (now HTS) also bought and sold corporate bonds at prices that were not fair and reasonable. The firm agreed to a censure, a \$54,500 fine and ordered to pay \$23,394.08 plus interest in restitution to customers.

In December 2009, affiliate FSC reached a settlement with FINRA when they reported transactions to the MSRB without including an accurate reference to the seconds in the execution time. Additionally, FINRA round that FSC failed to adequately monitor its trade reporting to ensure compliance with MSRB Rules in violation of MSRB Rule G-14 and G-27. FSC consented to a censure and fine in the amount of \$10,000.

In March 2010, affiliate SWST (now HTS) reached a settlement with the SEC regarding an SWST (now HTS) sales person who allegedly made political contributions to an incumbent for office with influence over the

awarding of municipal securities business by certain state issuers in Massachusetts. The firm agreed to cease and desist, \$50,000 fine, disgorgement of \$348,154 and pre-judgement interest of \$71,993.

In August 2010, affiliate FSC reached a settlement with FINRA for failing to display immediately customer limit orders in NASDAQ securities in its public quotation which each such order was at a price that would have improved the firm's bid or offer in each such security. Additionally, the firm failed to submit reportable order events to OATS and transmitted to OATS reports that contained inaccurate, incomplete, or improperly formatted data. The firm consented a censure and fine in the amount of \$15,000.

In December 2010, affiliate FSC reached a settlement with FINRA for filing a financial and operations combined uniform single (FOCUS) report that was inaccurate with respect to its customer reserve formula computation. The firm overstated its customer reserve formula and debits and its net capital by \$4,712,534. The firm consented to a censure and fine in the amount of \$35,000.

In February 2011, affiliate SWST (now HTS) reached a settlement with FINRA for the alleged conduct of MLS prior to its acquisition by SWST (now HTS). FINRA alleges that MLS bought or sold securities from customers at prices that were not considered fair given the current market conditions. The firm agreed to a censure, \$12,500 fine, and \$1,846 restitution plus interest.

In March 2011, affiliate SWST (now HTS) reached a settlement with FINRA for the payment to individuals not associated with the firm to solicit municipal securities business and failure to make municipal filings in a timely manner in violation of MSRB rules. The firm agreed to a censure, \$500,000 fine, and to certify within 60 days that new systems and procedures have been established that are reasonably designed to comply with applicable rules and regulations.

In March 2011, affiliate SWST (now HTS) reached a settlement with FINRA for failure to establish and enforce systems and procedures designed to achieve adequate due diligence and risk assessments of the firm's clearing services business. FINRA alleged that these failures allowed the firm to establish a relationship with an introducing firm for which SWST (now HTS) was to provide clearing services without performing proper due diligence and risk assessment initially, and on an ongoing basis. In addition, FINRA alleges that the firm failed to properly respond to alerts indicating that the introducing firm had exceeded trading thresholds resulting in an unsecured loss to SWST (now HTS) in the amount of \$6.3 million. The firm agreed to a censure, administrative fine of \$650,000 and to certify in writing to FINRA that SWST (now HTS) had designated a risk management officer to oversee systems and procedures in the correspondent clearing business, that the firm has revised its procedure in a manner that is reasonably designed to achieve compliance with the rules and regulations.

In April 2011, affiliate SWST (now HTS) reached a settlement with FINRA for failure to take the appropriate steps to eliminate security deficits related to stock loan activities. FINRA further alleged that the firm failed to properly document the steps taken by SWST (now HTS) to resolve the deficits. The firm agreed to a censure and a \$50,000 fine.

In November 2012, affiliate SWST (now HTS) reached a settlement with the state of Illinois after allegations were made that the firm failed to properly respond to a subpoena issued by the state. The firm agreed to a consent order and a \$7,500 fee to reimburse the state for the cost of the investigation

In November 2012, affiliate SWST (now HTS) reached a settlement with FINRA for failure to properly provide Official Statements in a municipal securities offering to customers. The firm agreed to a censure and an \$85,000 fine.

In March 2013, affiliate SWST (now HTS) reached a settlement agreement with FINRA after allegations were made that the firm bought or sold municipal securities from customers at prices that were not considered fair given the current market conditions and also failed to properly report certain trades within the required time period. In addition, FINRA further alleged that the firm's supervisory system with respect to the alleged conduct was insufficient. The firm agreed to a censure, \$77,500 fine and \$32,167.14 restitution plus interest.

In June 2013, affiliate FSC reached a settlement agreement with FINRA for inaccurate options reporting to the OCC. Specifically, FSC failed to report a large options position report position with the correct effective date, failed to submit reportable positions to the Large Option Position Report (LOPR) on numerous occasions and failed to accurately report three accounts to LOPR that were under common control or "Acting in Concern". FINRA found that FSC failed to maintain a supervisory system, including written procedures which were reasonably designed to achieve compliance with rules governing the reporting of large option positions. The firm consented to a censure and fine in the amount of \$27,500.

In August 2013, affiliate FSC reached a settlement agreement with FINRA for failing to provide official statements, in a municipal securities offering, to customers whose transactions settled on the day of the offering. It was additionally found that FSC failed to timely submit the official statement in two municipal offerings, failed to timely submit two remarketing supplements and failed to timely submit five Securities Exchange Act Rule 15C2-12 exempt filings, filed an inaccurate official statement in one offering. The firm consented to a censure and \$55,000 fine.

In August 2013, affiliate SWST (now HTS) reached a settlement agreement with FINRA for failure to transmit last sale reports to the appropriate trade reporting facility within the required time period. The firm agreed to a \$5,000 fine.

In November 2013, affiliate SWST (now HTS) reached a settlement agreement with FINRA for failing to execute the proper and timely close out of short positions creating a fail-to-delivery position in violation of FINRA rules relating to Regulation SHO. SWST (now HTS) agreed to a censure and \$10,000.00 fine.

In June 2014, affiliate SWST (now HTS) reached a settlement agreement with FINRA for failing to report the correct time of trade executions as required and failure to properly maintain record of the time of execution as required within the Firm's records. SWST (now HTS) agreed to a censure and \$12,500.00 fine.

In October 2014, affiliate SWST (now HTS) reached a settlement with FINRA for failure to, within 30 seconds of execution, transmit last sale reports of transactions to the NASDAQ Trade Reporting Facility. FINRA further alleged that the firm failed to report the correct time of execution. The firm agreed to a censure and a fine of \$17,500 and agreed to revise its Written Supervisory Procedures relative to the trade reporting NMS Securities.

In July 2015, affiliate FSC reached a settlement agreement with FINRA for failing to deliver Exchange Trade Fund Prospectuses to its own customer at the time of delivery of the security in contravention of Section 5 of the Securities Act of 1933. FSC agreed to a censure and \$450,000 fine.

In August 2015, an extended hearing panel decision was made to fine the SWSFS (now HTIN) \$50,000. The sanction was based on the findings that the firm's Supervisory system and its procedures were not reasonably designed to achieve compliance with rules relating to the suitability review process for certain variable annuity transactions and the time for transmitting Variable Annuity Transactions to the issuer. The findings also stated that the firm failed to implement adequate surveillance procedures to monitor its representatives. The panel also stated in the decision that FINRA did not prove that the firm lacked policies

and procedures reasonably designed to implement corrective measures to address inappropriate exchanges to the conduct associated with the persons that engaged in inappropriate states. Further the decision stated that FINRA did not provide that the firm's principals who reviewed the transactions lacked reasonable basis to believe the transactions were suitable for the customers or that the firm failed to document adequate training policies for its principals who reviewed Variable Annuity Transactions.

In February 2016, the SEC instituted a cease-and-desist proceeding against affiliate SWST (Now HTS). The SEC found that SWST willfully violated section 17(A)(2) of the Securities Act by conducting inadequate due diligence in certain offerings and as a result failed to form a reasonable basis for believing the truthfulness of certain material representations in official statements issued in connection with those offerings. This resulted in the firm offering and selling municipal securities on the basis of materially misleading disclosure documents. The violations were self-reported by SWST to the commission pursuant to the SEC's municipalities continuing disclosure cooperation initiative (MCDC). The firm was censured and paid a fine in the amount of \$360,000 and is required to retain an independent consultant to conduct a review of the firm's policies and procedures as they relate to municipal securities underwriting due diligence.

In March 2016, the SEC instituted a cease-and-desist proceeding against affiliate, FSC. The SEC identified violations by FSC relating to the Fair Dealing and Financial Advisory Agreement rules of the MSRB in connection with financial advisory services rendered by FSC to its municipal client during the time frame March through November 2010. Specifically, during the aforementioned time frame FSC rendered advisory services to the municipal client in connection with a 2010 bond issuance but failed to memorialize, through a written agreement, the specific services or tasks that FSC would provide in connection with the bond issuance until seven months into the financial advisory relationship. FSC was ordered to pay disgorgement of \$120,000, prejudgment interest in the amount of \$22,400 and a civil money penalty in the amount of \$50,000.

## **Other Financial Industry Activities and Affiliations**

Hilltop Securities Independent Network Inc. (HTIN) is a wholly owned subsidiary of Hilltop Holdings (Hilltop), a Dallas-based financial holding company. Through Hilltop's wholly owned subsidiary, PlainsCapital Corporation, a regional commercial banking franchise, it has two operating subsidiaries: PrimeLending and PlainsCapital Bank ("PCB"), including its subsidiary PlainsCapital Securities, LLC. HTIN, and HTS provide a full complement of securities brokerage, institutional and investment banking services in addition to clearing services and retail financial advisory. Hilltop also has other wholly owned direct and indirect subsidiaries which are not material to the advisory business of HTIN and HTS.

Subsidiaries of HTIN that are material to HTIN's advisory business include:

- Hilltop Securities Inc., a dually registered Broker-Dealer and Registered Investment Adviser
- FSW Advisory Services, Inc., a Registered Investment Adviser
- First Southwest Asset Management, LLC, a Registered Investment Adviser
- Southwest Insurance Agency, Inc., a licensed insurance agency
- Southwest Financial Insurance Agency, Inc., a licensed insurance agency

HTIN through its affiliation with Southwest Insurance Agency ("SWIA") and SWS Financial Insurance Agency, Inc. ("SWFIA"), will earn commission-based compensation for selling insurance type products, such as life, disability, long term-care insurance, and fixed and variable annuities. In addition, IARs may also be licensed and operate as insurance agents, and may receive commission-based compensation for the sale of these types of products. Insurance commissions earned by IARs from the sale of these products are separate and in addition to our advisory fees. Therefore, the sale of insurance and annuity products presents a conflict of

interest because IARs who are also insurance agents may have an incentive to recommend insurance and annuity products to you for the purpose of generating commissions. You are under no obligation to purchase products or services recommended by HTIN or its IARs in connection with any advisory service that we offer.

HTIN also has arrangements with HTS which are material to its advisory business. HTS and HTIN are affiliated due to their common ownership by Hilltop Securities. HTS is the sponsor of the Premier Advisors, Advantage, and Russell Programs. HTIN offers these advisory programs to Clients via a "co-advisory" arrangement it has with HTS. For all programs offered by HTIN, HTS retains a portion of the program fee for performing administrative services (such as reporting, record keeping and fee billing administration). The portion of the program fee retained by HTS generally ranges from 0.10% to 0.35% (annual rate) of the Account Value of each program.

PlainsCapital Bank ("PCB") is an affiliate of HTIN, both of which are under Hilltop's common control. HTIN has entered into an agreement with PCB for brokered deposit services. In addition, PCB may pay certain marketing and administrative fees to HTIN in exchange for marketing money market funds to certain HTIN Clients.

### **Registration as a Broker-Dealer**

HTIN is an independent broker-dealer and investment adviser. As a registered broker-dealer, HTIN is a member of the Financial Industry Regulatory Authority ("FINRA") and the Securities Investor Protection Corporation ("SIPC").

IARs may also be associated with HTIN as registered representatives ("RRs"). IARs may recommend the purchase of securities offered by HTIN as a securities broker-dealer. If you purchase these products through these individuals as RR in regular brokerage accounts, they will receive normal commissions, including 12b-1 fees for the sale of investment company products, which may be separate to the advisory fees you pay. As such, IARs may have incentive to sell you commissionable products in addition to providing you with advisory services when such commissionable products may not be suitable. Therefore, a conflict of interest may exist between their interests and your interests. While our security sales are reviewed for suitability by an appointed supervisor, you should be aware of the incentives we have to sell certain securities products and are encouraged to ask us about any conflict presented. Please be aware that you are under no obligation to purchase products or services recommended by HTIN or its IARs in connection with providing you with any advisory service that we offer.

### **Registration as an NFA introducing broker dealer**

HTIN is registered as an introducing broker and is member of the National Futures Association ("NFA"), which is the self-regulatory organization for the U.S. futures industry.

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

### **Code of Ethics**

HTIN has adopted a Code of Ethics that governs a number of potential conflicts of interest we have when providing our advisory services to you. Our Code of Ethics is designed to ensure that we meet our fiduciary obligations to you and to foster a culture of compliance throughout HTIN.

Our Code of Ethics is comprehensive and is designed to help us detect and prevent violations of securities laws and to help ensure that we keep your interests first at all times. We distribute our Code of Ethics to each supervised person at HTIN at the time of his or her initial affiliation with HTIN; we make sure it remains available to each supervised person for as long as he or she remains associated with HTIN; and we ensure

that updates to our Code of Ethics are communicated to each supervised person as changes are made. Our Code of Ethics asserts that all supervised persons have a fiduciary responsibility to clients and they must always adhere to federal securities laws. The Code also covers client confidentiality, gifts, undue influence in personal securities transactions and use of client or company assets to benefit one personally. Additionally, the Code mandates monitoring, review, reporting and sanctions for violations of the Code of Ethics. HTIN will provide a copy of the Code of Ethics to any client or prospective client upon request.

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

HTIN, as a broker-dealer, may act as an agent or, where permitted by law, or principal (including instances wherein we are an underwriter or selling group member). Even though HTIN may be permitted by contract or by law to do so, as a matter of policy, HTIN generally does not execute principal trades or agency cross transactions in our Advisory Programs. Although in some instances, we may be able to provide a more favorable market price to you if we participate in principal trade or an agency cross transaction with Client accounts, HTIN does so only when consistent with our obligations to provide best execution, due to regulatory requirements when executing such transactions. Therefore, you will not have access to new issues or syndicate offerings in these accounts. You may make such purchases in a retail brokerage account, and you should be aware that they will be subject to the customary fees and compensations charged in such accounts.

In case-by-case exceptions, in which HTIN enters into principal trades or agency cross transactions ("Agency Cross-Transactions"), we will provide specific disclosures and obtain your consent. If the transaction is a principal transaction in which HTS is a market maker in the security, we provide you with disclosure regarding the capacity in which HTIN is acting, and obtain your consent before completing such transaction. We rely on codes and restrictions in our systems as well as additional software to prevent non-permissible principal trades. In some instances, HTIN does not act as an investment advisor (according to Section 206(3) of the Investment Adviser Act of 1940) with respect to an Advisory Program transaction if the transaction is directed to us by a nonrelated portfolio manager, to whom the client has granted discretionary trading authority, and HTIN does not recommend, select or play a role, direct or indirect, in the portfolio manager's selection of the particular securities to be purchased for, or on behalf of, program clients. We have implemented systems and procedures that are designed to comply with the policy stated above and to monitor related activities.

HTIN may also affect cross-transactions between client accounts, where one client purchases a security held by another client. Neither HTIN nor any related party receives any compensation in connection with a cross-transaction. We effect these transactions only when we deem the transaction to be in best interests of both clients and at prices HTIN has determined to reflect their value.

You should understand that, to the extent permitted by applicable law, we may, in transactions involving your securities, act as agent while also representing another client on the other side of the transaction (provided, however, that no such agency transaction will be effected for the Program Account(s) of any ERISA Plan or an individual retirement account ).

If the transaction is an Agency Cross-Transaction, in which HTIN acts as your broker or agent by purchasing or selling securities from or to one of our brokerage customers, we obtain your written consent and will provide you with a written confirmation at or before the completion of the transaction. The confirmation will describe the nature of the transaction, plus information about its date and time, and the remuneration that the IAR or another person may receive as a result. At least annually, we will provide you a written disclosure statement identifying the total number of such Agency Cross-Transactions for your account during the period, and the total amount of all commissions or other remuneration we received or will receive in connection with these transactions, if any.

HTIN generally will not affect Agency Cross-Transactions between Clients if we have recommended the security to both Clients. Such Agency Cross-Transactions may have a potential of conflicting division of loyalty and responsibility regarding, both parties to the Agency Cross-Transaction. Such transactions are generally limited to brokerage (non-advisory) Clients only unless specific consent by the Client has been granted to the transaction in accordance with regulatory requirements. HTIN may have a financial interest for securities or investment products that HTIN's IARs recommend to advisory clients. In certain cases, the products may only be used with restrictions within the Advisory Programs.

Principal trades and agency cross transactions are also subject to additional restrictions, procedures and controls that are in place for the securities transactions in advisory accounts. As discussed more fully below, HTIN seeks to obtain the best execution for each of our advisory Clients.

### **Personal Trading**

HTIN and its officers, directors, employees and affiliates may buy or sell securities for themselves that it also recommends to Clients. We receives duplicate confirms for all trades conducted by HTIN personnel, and reviews them for potential conflicts of interests.

### **Brokerage Practices**

In the Advisory Programs offered by HTIN, you agree in the investment advisory agreement that trades are generally to be introduced by HTIN and executed by HTS in their capacity as an introducing and executing broker-dealer respectively. By directing brokerage, Clients may not receive best execution on account transactions.

In placing orders for purchase and sale of securities and directing brokerage to effect these transactions, HTS's primary objective is to obtain prompt execution of orders at the most favorable prices reasonably obtainable. Sub-managers in the Premier Advisers Program may cause trades to be executed by broker-dealers other than with HTS if the Investment Manager reasonably determines in good faith that using another broker-dealer is likely to result in better execution than if the trades were executed by HTS. Occasionally, in order to obtain best execution and minimize market impact, trades can be "stepped-out" in order to gain best execution and minimize market impact. In some instances, stepped-out trades are executed by the other firms without any additional commission or markup or markdown, but in other instances, the executing firm may impose a commission or a markup on the trade. If a client's Investment Manager steps-out trade orders for the client's account with a broker-dealer other than HTS, and the other broker-dealer imposes a commission or equivalent fee on the trade (including a commission embedded in the price of the investment), the client will incur trading costs in addition to the Advisory Fee.

HTIN receives no soft-dollar compensation.

In order to seek a more advantageous net price, it is our practice to aggregate, when feasible, orders for purchase or sale of a particular security for accounts of several program clients for execution as a single transaction. Any benefit to such aggregation generally is allocated pro-rata among the client accounts that participated in the aggregated transaction.

HTIN, HTS or the sub-managers may but are not required to aggregate orders for client accounts with the orders of other clients, their own accounts, their employees and their related persons. In such cases, the transactions, as well as the expenses incurred in the transactions are allocated according to HTIN, HTS or the applicable sub-manager's policy in a manner believed by it to be equitable to the client. In such cases, each account will be charged with the average price per unit, and where applicable, with brokerage costs and other fees.



Sub-managers participating in the Premier Advisors or Direct Access Program may determine that the purchase or sale of a particular security is appropriate for more than one client account. In such cases, the sub-manager may decide to aggregate multiple client orders into one “block” order for execution purposes. This can have the advantage of avoiding an adverse effect on the price of a security which can result from simultaneously placing a number of separate competing orders. In the event a block transaction is effected by a sub-manager, you will receive the average price of all transactions effected to satisfy the order.

As a result, the average price received by you may be higher or lower than the price at which you may have received had the transaction been effected for you independently from the block transaction. When aggregating orders, and in the process of allocating block purchases and block sales to individual client accounts, it is HTIN’s policy to treat all clients fairly and to achieve an equitable distribution of aggregated orders. Sub-managers participating in the HTIN program may also participate in other wrap fee programs sponsored by broker-dealers not affiliated with HTIN. In addition, sub-manager typically manages institutional accounts not referred through a directed brokerage, wrap fee program. In the event a sub-manager wishes to buy or sell a security for all accounts within a particular discipline, the sub-manager may have to potentially effect such transactions through a large number of broker-dealers. Depending on the liquidity of the security and the size of the transaction, among other factors, certain sub-managers may utilize a trade rotation process where one group of clients (i.e. HTIN Clients) may have a transaction effected before or after another group of the sub-manager’s clients so as to limit the market impact of the transaction. A sub-manager’s trade rotation policies are at their discretion, typically utilize a random selection process and are intended to equitably allocate transactions over time across the sub-manager’s entire client base so that each group of clients can expect to receive executions at the beginning, middle and the end of the rotation. Additional information regarding the sub-manager’s trade rotation policies, if any, is available in the sub-manager’s Form ADV Part 2.

## **Review of Accounts**

Program Services include periodic reviews and monitoring of your account by your IAR. In addition, monthly and/or quarterly reviews are conducted by the Investment Management Group (“IMG”). For Clients of IARs registered through HTIN, trading activity is reviewed on a daily basis by the Office of Supervisory Jurisdiction (OSJ), or designee assigned to the IAR. Other reviews, as deemed appropriate, may be conducted by IMG, the OSJ or OSJ designee. IARs conduct reviews on at least an annual basis, which can provide an opportunity for you to update HTIN with any material changes in your financial condition and/or investment constraints.

## **Client Reports**

Clients receive written custodial account statements monthly if there is activity, or quarterly in the absence of activity. In addition, performance reports are available upon request.

## **Clients Referrals and Other Compensation**

HTIN may pay referral fees to persons for referring advisory business to HTIN pursuant to Rule 206 (4)-3 of the Investment Advisers Act. Such fees may only be paid to persons with whom HTIN has entered into formal referral agreements. HTIN also requires that a referral fee disclosure statement be given to you (or prospective clients) that discloses, among other things, the amount of fee to be paid to the referring person and the fact that the payment of such referral fees has not increased the amount of the total advisory fee that you (or prospective client) will pay.

## **Custody**

HTIN accounts are custodied at HTS, an affiliate of HTIN. HTS, as the custodian, will provide HTIN Clients with account statements at least quarterly. These statements identify the positions in the account at the end of the statement period, as well as all transactions in the account during the statement period. Clients should review these statements carefully.

## **Investment Discretion**

In the Premier Advisors Program, you authorize and direct the platform manager to delegate discretionary authority to each manager selected. The Russell Strategies Program is a discretionary program. Russell Investment Company determines the asset allocation and fund selection, and HTIN will implement the strategy. For Partner Discretion accounts, you delegate discretionary trading authority to your IAR. The Direct Access Program is a discretionary program where the Portfolio Strategists or Model Providers determine the asset allocation and have trading authority.

## **Voting Client Proxies**

HTIN will not vote on matters requiring shareholder voting in connection with the securities held in your account, or with respect to certain legal actions involving securities including, for example, voting proxies, mergers, bankruptcies, restructuring, class actions, or similar matters. Under the circumstances where HTIN receives material on your behalf, we will promptly forward such material to your attention. HTIN does not offer advice regarding proxy voting; this is the sole responsibility of the shareholder. With respect to the Premier Advisors Program, third party investment managers with discretion may vote the proxy. You may request information on how your securities were voted by each sub-manager by contacting HTIN. HTIN will aid any customer to obtain proxy voting information if requested. If such information is not readily available, it may be grounds for termination of the sub-advisor's agreement. Any problems will be immediately referred to the Investment Adviser Surveillance Manager and the Chief Compliance Officer ("CCO") of HTIN.

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

### **Information Provided to Envestnet/Envestnet Managers**

When you establish a Premier Advisors Program account, HTIN will send various information about you and your account to Envestnet (including your name, whether or not your account is taxable, state/country of residence, your Statement of Investment Selection, and any applicable restrictions). Upon acceptance of your account, Envestnet will forward the foregoing information on to the Envestnet Manager in order for the Envestnet Manager to effectively manage your account. Model Providers are not provided with your specific information, except for the brokerage number, account size and information about your IAR. HTIN may also send the Envestnet Manager duplicate brokerage statements and/or confirmations.

### **Information Provided to Direct Access Investment Managers**

When you establish a Direct Access Account, we may send various information about you and your account to the Manager/Strategist (including your name, whether or not your account is taxable, state/country of residence, your Statement of Investment Selection, and any applicable restrictions). Model Providers are not provided with your specific information, except for the brokerage number, account value and information about your IAR. HTIN may also send the Investment Manager duplicate brokerage statements and/or confirmations.

## **Client Contact with Portfolio Managers**

Your IAR will be your primary point of contact for addressing any questions or concerns relating to your managed account. If you are enrolled in a program that employs an unaffiliated third party Investment

Manager or Strategist, HTS imposes no limitations on your ability to consult your Investment Manager(s) and/or Portfolio Strategist(s) directly, but you are encouraged to first contact your IAR.

### **Investment Policy Statements**

HTIN or its IAR's will not monitor for compliance nor approve investment policy statements when provided in association with an account in one or more of the listed Advisory programs described in this brochure. HTIN does not provide Investment Policy Statements. HTIN will not be responsible for the ongoing monitoring of your investment policy statement and the assets allocation detailed within the statement. This is your responsibility and you should consult with your legal and tax advisors for matters regarding your investment policy statement.

### **Financial Information**

HTIN has not been the subject of a bankruptcy petition at any time in its existence. Under no circumstance will HTIN earn fees more than six months in advance of services rendered.