

Investment Advisory Brochure



Harbour Investments, Inc.

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This brochure provides information about the qualifications, business practices and disclosures of Harbour Investments, Inc. ("Harbour"). If you have any questions about the contents, please contact your Harbour Investment Advisory Representative ("IAR") or Harbour at info@harbourinv.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.

Harbour Investments, Inc. is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training. The oral and written communications of an adviser provide you with information about which you determine to hire or retain an adviser.

Additional information about Harbour Investments, Inc. also is available on the SEC's website at www.adviserinfo.sec.gov. In addition, by separate document, clients invested in Harbour's various Wrap Fee Programs will receive a separate Wrap Fee Brochure.

Item 2 – Material Changes

The following is a summary of changes since our last annual update dated March 28, 2017. Item 4 has updated language regarding Financial Planning and Consultation Services. Item 5 has been reorganized to reflect changes for Financial Planning and Consultation Services. Items 7-8, and 10-17 have been rearranged to better reflect the requirements of various adviser rules. Item 9 has been updated to reflect Harbour's Code of Ethics and an SEC Consent Order entered in September 2018. The Consent Order, among other things, relates to marketing agreement compensation received from a third party broker-dealer, 12b-1 fees received by Harbour, disclosures regarding both of these, conflicts of interest, best execution, and share class selection and disclosures. Disclosures were updated in Item 11 regarding share class conversions, Pershing Advisor Solutions ("PAS"), Harbour's Code of Ethics, participating sponsors, 12b-1 fees, account servicing fees and solicitors, and the disclosure of conflicts of interest and how Harbour addresses these. In addition, various additional information has been added, updated and reorganized.

Our brochure may be requested by contacting us at 608-662-6100 and/or email info@harbourinv.com. Our brochure is also available on our website www.harbourinv.com/clients also free of charge.

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Item 4 – Advisory Business

Harbour is a Wisconsin headquartered securities broker/dealer and federal registered investment adviser incorporated in 1987. Nick W. Sondel owns 75% or more of the firm. Harbour's principal place of business is Madison, Wisconsin and its telephone number is (608) 662-6100. Harbour and its Investment Adviser Representatives ("IARs") provide a variety of investment advisory services to clients some of which are described below.

Financial Planning and Consultation

For clients needing financial advice involving analysis of a particular investment, overall holdings, or a short or long-term financial situation, Harbour and its IARs provide Financial Planning and Consultation Services to meet client's financial objectives and needs. Harbour's financial planning services usually include, but are not limited to an analysis of client's existing assets, investment objectives, insurance, investments, cash flows, risk management, retirement projections, estate or business plans, savings plans, or other special objectives. The scope of the financial plan is as broad or detailed as the client reasonably specifies. Harbour's consultation services include, but are not limited to, investment advice regarding retirement, education or estate planning, or the modification of an existing financial plan. For a client requesting advice on only a portion of their financial plan or regarding a limited project, Harbour and IAR will provide consultation services limited to the client's request. Harbour's services generally consist of a review and analysis of all relevant data supplied by the client. A written report(s) may be generated based on the scope of the plan and client's objectives.

Asset Management Services – Wrap Fee Programs – Non-Discretionary

Harbour sponsors several Wrap Fee Programs featuring various levels of discretionary authority given to Harbour and its IARs by the client to manage investments in an account. For those clients interested in one or more of Harbour's Wrap Fee Programs, Harbour will also provide its separate Wrap Fee Program Brochure. The follow also provide descriptions of the Wrap Fee Programs. Harbour and its IARs receive a fee (described further below) based on Assets Under Management ("AUM") for its services. Each program begins with the IAR helping a client identify investment and financial objectives. The IAR and the client develop strategies based on various criteria including but not limited to: current resources, level of income, net worth, risk tolerance, time horizon, investment objectives, present and deferred employee benefits, self-employed income and benefits, tax situation, insurance programs and estate planning considerations. Harbour relies on the information provided by the client in providing this advice. The scope of the asset management service depends on the client's specifications. The IAR will be available to consult with, and respond to client questions as well as those of any advisers the client may designate regarding client's financial situation and Harbour's recommendations. Harbour and IAR do not guarantee the results of any recommendation. All trading in the account must first obtain the approval of the client before the transaction is effectuated.

Asset Management Services include most investment vehicles. Typical products are common and preferred stocks, bonds, exchange-traded funds, municipal securities, load and no-load adviser mutual funds and annuities, both variable and fixed. Harbour recommends different investment strategies, including short-term ones. Generally, however, Harbour recommends strategies for long-term investing. A client's securities portfolio will typically be custodied at one of Harbour's transaction clearing firms, Pershing Advisor Solutions ("PAS"), Charles Schwab Institutional, TD Ameritrade Institutional or American Funds Service Company. Harbour and its IARs may participate in the institutional advisor program (the "Program") offered by TD Ameritrade Institutional. TD Ameritrade Institutional is a division of TD Ameritrade Inc., member FINRA/SIPC ("TD Ameritrade"), an unaffiliated SEC-registered broker-dealer and FINRA member. Harbour and its IARs may participate in Schwab Intelligent Portfolios, an automated investment advisory service. Schwab Intelligent Portfolios is made available through Schwab Wealth Investment Advisory, Inc., a registered investment adviser. Harbour and its IARs may also participate in American Funds F-2 Direct Program. Class F-2 mutual funds may be purchased directly through American Funds. Clients may be subject to annual maintenance fees and set up costs for IRA accounts through American Funds.

Custodial and clearing firms generate monthly, quarterly or annual reports about the client's accounts. In addition, however, Harbour and its IAR may also generate quarterly or annual investment reports as well. Harbour and the IAR will not normally generate a written report to review specific or generic products or to discuss planning or investment strategies. In general, Harbour and its IAR will provide supplemental reports only when the client requests these. A client's actively-managed holdings may be held at a custodian other than those listed above upon agreement with Harbour. Since these accounts are non-discretionary, i.e. all trading must be done with the client's express prior approval, clients may elect not to invest in certain securities or types of securities.

Asset Management Services – Wrap Fee Programs – Limited Discretionary

Harbour also sponsors a Wrap Fee Program in which an IAR may recommend a limited discretionary account. In these accounts, a client gives the IAR authority to rebalance a client account portfolio consisting of mutual funds, exchange traded funds, individual equities or common stocks and bonds. The IAR determines a range of asset allocation for holdings expressed as a percentage of total assets. Due to the different performance of holdings, the value of each as a percentage of total assets may differ over time from the original range. When an individual holding as a percentage of total assets is outside this range, the IAR may rebalance the portfolio to bring the percentage into the target range. The IAR may also otherwise rebalance the account portfolio when deemed necessary in his or her discretion without prior notice to the customer.

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The IAR may also decide to replace holdings with a mutual fund or exchange traded fund. For example, in certain portfolios invested in large-cap stocks, a similar mutual fund or exchange traded fund that invests in large-cap stocks may replace these holdings in the IAR's discretion. All other aspects of a limited discretionary account follow the non-discretionary account noted directly above. When mutual funds are being purchased, when possible, the IAR will use Adviser Mutual Funds which are typically lower cost to the client. The IAR shall also seek to select share classes of mutual funds which, in the adviser's opinion, meet the client's needs at a lower cost. Share classes are usually denoted by alphabet letters like "A," "B," "C," etc. Each has different cost structures incurred in connection with holding the product, as further discussed in the prospectus of the product.

Asset Management Services – Wrap Fee Programs – Full Discretionary

Harbour also sponsors a Program in which an IAR recommends a full discretionary account. In these accounts, Harbour and its IAR have discretion to make trades and decide the quantity, price and timing of each trade, all without the client's specific permission. Clients grant this authorization by executing a discretionary trading power of attorney. All other aspects of a full discretionary account follow the account approaches noted directly above.

Third Party Manager – Wrap Fee Programs

Harbour also sponsors a Program in which the IAR may recommend an independent investment manager(s) provide portfolio management services for the client. Harbour has agreements with such third party managers. These include: Loring Ward, BTS Asset Management, SEI, LVZ Advisors and others. To facilitate account reporting when using third party managers, account assets are usually custodied as designated by the third party manager. They generally require all securities transactions for the client's account be executed by the custodian. Once a client has selected a manager program, Harbour and its IAR supply the program manager with information regarding the financial background and investment objectives as the client provides. The client executes an advisory agreement with the program whereby the third party independent manager(s) agrees to accept and manage the client's account on a discretionary basis according to client objectives. A client may also use a third party manager platform such as TD Ameritrade Institutional. This platform has access to numerous additional third party managers.

If Harbour and its IAR become aware of changes in a client's financial circumstances or objectives, they will inform the client's manager. Updated financial information about a

client is not collected by Harbour and IAR on a regular basis or given to a manager unless Harbour and IAR are made aware of changes by the client. Clients also communicate changes directly with the client's manager. Harbour receives a portion of the wrap fee charged for our services.

Client assets are managed in all of the above programs. As a point of comparison, at December 31, 2017, Harbour managed assets on a non-discretionary basis of approximately \$1,518,644,000; \$898,037,000 in Asset Management Services-Wrap Fee Programs and approximately \$620,607,000 under Third Party-Manager-Wrap Fee Programs. Harbour managed approximately \$632,851,000 under Limited/Full Discretionary authority.

Item 5 – Fees and Compensation

The hourly fee for consultation services is negotiable but generally ranges from \$50 to \$250 per hour. Services can also be performed on a flat fee basis. Flat fees range between \$200 to \$1,500, but vary depending on the scope of the plan. The rate and fee payment schedule is typically determined by the complexity of the project and the amount of time involved. Client charges for a plan or service are negotiable. Typically the fee is paid in its entirety up front or an estimate of the total fee is given to client by Harbour or the IAR and a deposit of 50% of the estimated hourly or flat fee is paid at the execution of the agreement. The balance of any fees is due upon receipt of the final written report or advisory service. Hourly or flat fees can be waived or refunded when repositioning of the client's portfolio has generated trading concessions to Harbour and IAR. In the event of contract termination by the Client or Harbour, prepaid fees received but not earned are reimbursed to the client. Clients may purchase investment products that IAR's recommend through other brokers or agents unaffiliated with Harbour.

Harbour and its IARs offer clients a range of payment options which compensate Harbour and its IARs on wrap fee programs. In most cases, when the client wishes an ongoing investment advisory relationship, compensation is calculated as a percentage of AUM. The annual service fee in wrap fee programs typically range from 0.50% to 1.50% of AUM. Since the IAR receives fees as a result of the client's participation in the program, the IAR has a financial incentive to recommend a wrap fee program over other services. This constitutes a conflict of interest for Harbour and the IAR which must be disclosed to the client, along with a comparison of the cost of the wrap fee program with other potential arrangements. The client is free after such disclosure to choose the wrap fee program or any other program Harbour offers, including a brokerage account charging transaction-based compensation.

The IAR may negotiate the management fee with the client. All agreements are subject to Harbour approval. Where the IAR uses commissioned products to implement an investment strategy, fees on the AUM may be waived for agreed periods after the sale which generated the commission. Any refund must be approved by Harbour. In most cases, the value of AUM is determined at account commencement or at the end of the first

month or quarter after the account is established. Harbour and the IAR can be compensated by the client for advisory services on a monthly, quarterly or any other agreed upon schedule. Fees are calculated by multiplying the percentage fee agreed upon in the advisory agreement between Harbour and client against the AUM. The product of this calculation is the fee paid by the client. The fee may exclude transaction and custodian costs including brokerage commissions and account maintenance fees. Upon agreement between Harbour and the client, certain assets under management may be excluded from the computation of the AUM. Transaction costs may be per transaction or a percentage of AUM. When these costs are not included in the typical service fees, they may be separately charged to the account.

Accounts with account values under \$25,000 typically have greater service fees due to higher costs of the IAR maintaining the account. Clients may authorize the client's account custodian(s) to deduct, upon Harbour's instruction, fees when due from assets held in the account. Money market funds and other securities in the client's account in amounts sufficient to cover Harbour's fees may be liquidated to pay fees. In all other cases, Harbour and IAR may calculate and submit a fee invoice to the client which can be paid from the client's account with client permission. The service fees for American Funds F-2 Direct Program are 1.0% and are not negotiable. Harbour and IAR do not take custody of any clients' funds or securities. The investment advisory contract between Harbour and each client can be terminated by either party upon receipt of written notification. The client also has the right to rescind the contract within five business days of the date the contract was signed.

Third party Manager fee programs range between 0.35% to 2.00% per annum. These may be higher or lower than those charged by other management services. Harbour and its IAR will provide periodic assistance in evaluating manager(s) performance and, if necessary, recommend replacing a manager. Under the terms of Third Party Managers agreements, Harbour receives a fee for the referral of a Harbour client, calculated as a percentage of AUM or as a percentage of the advisory fee received by the investment manager from the client. Such fees continue to be paid as long as the account remains under management. A conflict of interest exists when Harbour recommends managers or a manager's platform and receives compensation from the manager for doing so. In all cases, the total management fees will be disclosed to the client and the client advised of the conflict of interest. The client will be further advised that he or she is free to use other managers from whom Harbour does not receive compensation. The third party manager provides reports to client at the frequency specified in the investment management agreement entered into with the client. A client's IAR will discuss reports and assist the client with other matters associated with the third party account. The annual fee does not include transaction or custodial fees and costs. Fees are generally payable quarterly in advance. Upon termination, any unearned prepaid fees will be returned to the client. Clients usually authorize both the manager and Harbour to debit the client's account for the amount of fees due.

Item 6 – Performance-Based Fees and Side-by-Side Management

Harbour does not offer Performance-Based fees.

Item 7 – Types of Clients

Harbour offers its services and investment advice to entities, individuals, trusts, investment companies, investment advisors, pension and 401(k) plans and other tax-deferred vehicles like Individual Retirement Accounts, Single Employment Plans, high net worth individuals and others needing investment services and advice.

Account minimums are \$5,000. An IAR may require account minimums in excess of these numbers. Third party manager programs may have different account minimums depending on the manager. Harbour's American Funds F-2 Direct Program minimums are set per individual mutual fund prospectus which may be considerably lower than Harbour general account minimums.

Item 8 – Methods of Analysis and Investment Strategy

Certain IARs provide asset management/wrap fee services. In these cases, IARs generally use fundamental or technical analysis. Each IAR may use his or her own analysis and investment strategy.

Fundamental analysis seeks to understand the underlying value of securities based on financial and market fundamentals to determine whether securities are under- or over-valued. Fundamental analysis can be applied to most securities, including equities, bonds and fixed assets. It can also be applied to broader markets through economic analysis and investment strategy.

Technical analysis focuses on information from the market itself, including but not limited to price levels, movement, volatility, trade volume and demand. Markets and securities develop trends, whether up, down or sideways, and technical analysis attempts to measure the characteristics of those trends. Momentum investing is a form of trend-following investing used by a variety of investors. Technical analysis is an important tool for momentum investors, especially in determining when trends change.

The types of analysis used by Harbour IARs all have inherent risk associated with them since investing in securities involves risk of total loss. Clients must be prepared to bear such risks when investing. Other risks include market risk, default risk, option risk, high turnover risk and foreign investing risk.

Third Party Manager – Wrap Fee Programs

Harbour has agreements with certain third party managers that use a variety of methods for analyzing stocks, bonds, mutual funds and other investments in client portfolios. These include but are not limited to the following:

- Sophisticated, analytical modeling techniques identifying intermediate to long-term market trends
- Macro economic models which analyze economic data like gross domestic product, inflation, unemployment, money flows and overall market conditions. This analysis seeks to determine the current phase of the business cycle (expansion, peak, contraction or trough)
- Academic research modeling known as “Modern Portfolio Theory.”

Each third party manager uses different forms of analysis. The client, assisted by their IAR, determines which will best suit the client’s situation. Harbour’s selection and review of third party managers includes reviewing AUM, including mixes of assets, risk tolerance and client objectives matched against adviser’s management style. Harbour also reviews financial stability, tenure and performance.

Harbour’s criteria for replacing recommended managers in the program may be based on inactivity. Managers who have not received Harbour-client funds for two years or more may be replaced.

Criteria used to recommend third party management changes to a client include, but are not limited to ongoing suitability of the manager’s style with the client objectives, client’s overall objective change, cost and/or change of cost of the program and performance.

Harbour does not calculate portfolio manager performance, nor does it review performance information to verify its accuracy or its compliance with presentation standards.

The types of analysis used by Harbour’s IARs and third party managers all have inherent risk associated with them because investing in securities involves total risk of loss. Clients must be prepared to bear such risks when investing. Other risks may include: market risk, default risk of individual bonds, inflation risk, option risk, high turnover risk and foreign investment risk.

For a complete description of Wrap Fee Services, please refer to the Wrap Fee Brochure which is Appendix 1.

Item 9 – Disciplinary Information

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to a client’s evaluation of Harbour or the integrity of Harbour’s management. Harbour entered into Consent Order with the SEC in September 2018. The Consent Order, among other things, relates to marketing agreement compensation received from a third party broker-dealer, 12b-1 fees received by Harbour, disclosures regarding both of these, conflicts of interest, best execution, and share class

selection and disclosures. The Consent Order resulted in disgorgement, a fine and interest totaling \$241,479.00.

Item 10 – Other Financial Industry Activities and Affiliations

Harbour is also registered as a FINRA member brokers and deals investment products. In conducting this business, Harbour markets investment products to its customers on a commission basis. Approximately 50% of the firm's staff time is spent providing investment advisory services.

As a FINRA broker/dealer firm, Harbour may execute proprietary transactions for itself and/or its IARs.

Harbour receives commissions and/or fees from other registered investment adviser firms and registered third party managers programs which are fully disclosed in the appropriate selling agreements.

Harbour's IARs are often dually registered broker-dealer representatives with Harbour. This poses an inherent conflict of interest. Prior to transacting any securities or advisory business, the IAR must disclose the total fee and commission structure to the client so that he or she may evaluate the compensation arrangement and the total transaction cost of any recommendation. For example, all costs and other client consideration must be reviewed to determine whether an adviser account or a traditional broker-dealer based account in which transactions are assessed a commission is best for the client. If there are 12b-1 trail commissions (commission generated by mutual funds and paid as "trailing" compensation to Harbour and its IARs) generated by a recommended product after purchase, this must also be disclosed to the client prior to investment. When Harbour and its IAR use commissioned products to implement an investment strategy, fees can be waived or offset in lieu of receipt of the commission(s). This will be disclosed in writing. The IAR must also disclose whether the purchase of a particular investment product adds to the IAR's production volume for incentives such as gifts, trips, etc. An IAR who is managing an investment account positioned in mutual funds or variable contracts must also disclose all management fees and expenses as described in prospectus. Fees may be paid six months in advance up to \$500, or may be billed in arrears on a monthly, quarterly or other client agreed upon periodic schedule. Harbour and its IARs cannot assign, sell or otherwise transfer a client's investment advisory contract unless they have written permission to do so from the client or the client's designated legal representative.

Harbour's fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses incurred by the client unless otherwise noted. Clients may incur certain charges imposed by custodians, brokers, third party investment and other third parties such as fees charged by managers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Mutual funds and exchange traded

funds also charge internal management fees and are disclosed in a fund's prospectus. Such charges, fees and commissions are exclusive of and in addition to Harbour's fee, and Harbour does not receive any portion of these associated fees and costs.

The broker/dealers with whom Harbour contracts to execute transactions and custody client assets may provide products and services that benefit Harbour but may not directly benefit clients' accounts. These benefits may include specific educational events organized and sponsored and paid for by the broker/dealer and occasional business entertainment of personnel of Harbour including meals, lodging and invitations to sporting events. Other product and services provided assist in managing and administering clients' accounts. These include software and technology that provide access to client account data, facilitate trade execution, provide research, and facilitate payment of advisory fees from its client's accounts. The broker/dealer may make available, arrange and/or pay vendors for these types of services rendered to Harbour by independent third parties. The broker-dealer may also pay certain expenses of Harbour and/or its IARs or registered representatives. As a fiduciary, Harbour endeavors to act in its clients' best interests. The benefits Harbour and its IARs receive create a conflict of interest since Harbour may be incentivized to recommend broker/dealers or custodians providing such benefits. Before making a recommendation in such circumstances, Harbour will also inform a client of the nature of the conflict, the benefit received and inform the client he or she is free to designate other broker-dealers to provide them service who do not provide Harbour such benefits.

As indicated above, and in Harbour's Wrap Fee Brochure, Appendix 1, Harbour sponsors a Wrap Fee Program through PAS, American Funds Service Company, TD Ameritrade Institutional and Charles Schwab Advisor Services division of Charles Schwab & Co., Inc. This program maintains assets at a designated custodian. The custodian generally executes trades in the client's account. The client, at all times, makes the decision where to custody assets including accounts under ERISA or IRA rules and regulations. Harbour and its IARs offer different compensation options. In most cases, when the client wishes an ongoing investment advisory relationship, compensation is calculated as a percentage of AUM. These fees typically range from 0.25% to 2.0%, but are subject to negotiation between Harbour and the client. Fees consist of advisor compensation, transaction and custodian costs including brokerage ticket charges and account maintenance fees bundled together. This may result in a higher charge than if the fees were unbundled and charged separately.

Harbour requires its IARs to pass the Series 65 (Investment Adviser Representatives Examination) or equivalent examination (Series 66) or have a noted designation, (i.e., CFP, ChFC, CFA, etc.) to provide investment advice. In all cases, individual state and federal licensing and exam regulations govern. IARs are also required to have a minimum of 5 years experience in the securities industry. Harbour makes exceptions to these qualifications if circumstances warrant and the law otherwise allows.

Prior to transacting any securities or advisory business, the IAR must disclose the total fee and any commission structure to the client so the client may evaluate the total compensation arrangement. If there are 12b-1 trail commissions generated by a

recommended mutual fund product, this also must be disclosed to the client prior to any investment. In the case of mutual fund recommendations, the client will be informed of the various share classes of funds available, their respective features and their costs. When Harbour and its IAR use commissioned products to implement an investment strategy, fees can be waived or offset in lieu of receipt of concessions. This must be disclosed in writing. The IAR must also disclose whether the purchase of a particular investment product adds to the IAR's production volume for incentives such as gifts, trips, etc. An IAR who is managing an investment account positioned in mutual funds or variable contracts must also disclose all management fees and expenses as described in prospectus.

Item 11 – Code of Ethics

Harbour maintains a Code of Ethics adopted pursuant to SEC Rule 204A-1. A copy of this Code of Ethics will be furnished clients and prospective clients upon request.

Harbour and its IARs exercise authority and responsibility for the benefit of the client. They must place the interests of the client first, to refrain when possible from having outside interests that conflict with the interests of the client and disclose all conflicts of interest that exist or develop. Harbour and its IAR must avoid circumstances that adversely affect or appear to affect their duty of complete loyalty to its clients.

It is unlawful for any adviser in connection with the purchase or sale, directly or indirectly, of a security held or to be acquired by the adviser:

- To employ any device, scheme or ploy to defraud;
- To make any untrue statement of a material fact or to omit to state a material fact necessary to make the statements, not misleading;
- To engage in any act, practice, or course of business that operates or would operate as a fraud or deceit; or
- To engage in any manipulative practice.

IAR transactions for their own personal accounts must be properly disclosed to a client when the IAR and client hold common securities.

- If entering personal and client orders for the same security, the client's order must always be entered before the IAR's order.
- If the same security is held by the IAR and client, it must be disclosed to the client.
- When selling a personal position in a common security, it must be disclosed to all clients that hold the security, or have open orders to buy that security. The selling price also must be disclosed if setting limit orders.
- If buying a personal position in a common security, the IAR must disclose this to all clients that hold the security, or have open order to buy the security in question. The buying price also must be disclosed if setting limit orders.

- Personal activity in a common security ahead of a client must be documented and provide a written explanation why the transaction occurred.

Conflicts of Interest

Harbour and its IARs have a duty to disclose potential and actual conflicts of interest to their clients. IARs also have a duty to report potential and actual conflicts of interest to their advisory firms. IARs should not attempt to limit their liability for willful misconduct or gross negligence through the use of disclaimers. A copy of Harbour's Code of Ethics which elaborates on this is available upon request.

Accounts receiving management services within a wrap fee program are monitored by a client's IAR on a continuous basis and the frequency of client reviews are determined by the investment mix of the account and the desire of the client. Such reviews may also be triggered by economic news, news about a particular security, client requests, and change in client's personal or financial situation, securities research, deposits to or withdrawals from an account or other events.

IARs may conduct investment advisory activities under separate unaffiliated business names. All client funds must be made payable to the corresponding custodian, not the IAR or their unaffiliated business.

Clients provided asset management services receive account reports prepared by PAS, Charles Schwab Advisor Services division of Charles Schwab & Co., or TD Ameritrade Institutional, and other approved custodians on a monthly or quarterly basis. In addition, a report may be prepared by Harbour and IAR according to the frequency agreed upon between IAR and client. In most cases, these reports will be generated annually.

Registered investment advisers are required in this item to provide certain financial information or disclosures about Harbour's financial condition. Harbour has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.

For those clients purchasing or depositing mutual funds with Harbour, Harbour will choose or convert the share class of a mutual fund holding to a lower cost share class of the same mutual fund, if available, if this otherwise makes economic sense and is in the best interest of the client. Each mutual fund, as well as each clearing firm custodian has minimum purchase amounts. A clearing firm custodian may charge for a mutual fund share class conversion. A review will be conducted on these accounts to determine if a share class conversion makes sense for the client. IARs will consult with the client regarding share class conversions.

Harbour has an agreement with Pershing Advisor Solutions ("PAS") for the marketing of certain brokerage and other services provided by PAS to RIAs and their customers. Pursuant to this agreement Harbour receives compensation from PAS when Harbour refers

an RIA to PAS who uses PAS services. This compensation currently consists of .0002% of Assets Under Management custodied at PAS up to \$500,000,000. Assets Under Management over \$500,000,000 generate compensation from PAS to Harbour in the amount of .00008% of Assets Under Management. This compensation is calculated and paid to Harbour quarterly. RIAs referred by Harbour to PAS in some instances are owned or are otherwise associated with individuals who are registered with Harbour as broker-dealer representatives. The compensation Harbour receives from PAS is not paid to clients, nor is such compensation charged clients directly or indirectly. Harbour is not affiliated with PAS in any way other than by virtue of the “arm’s length” marketing contract. Harbour endeavors at all times to put the interest of its clients first. Clients should be aware, however, that the receipt of such economic benefits including those it receives from PAS creates conflicts of interest for Harbour and may influence the recommendation of PAS for custody and brokerage services by Harbour, its IARs or other RIAs. The conflict occurs because Harbour’s receipt of the marketing fee discussed above is an incentive to recommend PAS. Clients are advised that they are not required to use PAS and that other custodians are available who do not pay Harbour any marketing fee, but who provide services similar to PAS.

Harbour also receives additional compensation based on a fixed amount, flat fee, a formula based on assets under management, or expense reimbursements (“Additional Compensation”) from certain product sponsors who are considered “participating sponsors”. These payments are paid to Harbour out of the revenues of the sponsoring investment company, registered investment adviser or insurance company and are NOT paid out of client assets. Harbour uses this Additional Compensation to assist in training, education, and marketing services. As of January 2017 participating sponsors include Nationwide, Advisors Excel, VOYA Financial, FS Investments, Allianz Life, AXA, BTS Asset Management, CWP Private Wealth Management, Horter Investment Management, Jackson National, LVZ Advisors, Q3 Asset Management, Sierra Mutual Funds, American Funds, Tomorrow’s Scholar, Franklin Templeton, Global Atlantic, Pershing, TD Ameritrade, USA Financial, Inland & Carter Validus. The participating sponsors’ additional compensation paid to Harbour ranged from \$915 to \$25,000.

In return for this Additional Compensation, Harbour’s Participating Sponsors have greater access to IARs and also registered representatives for product training and other educational presentations and information so they can better serve investors. This creates a conflict of interest for Harbour, its IARs and registered representatives since it may incentivize them to focus on these sponsors when recommending products to clients instead of products from non-sponsors that have more limited access. Clients are advised of this conflict and are informed that they are not required to purchase any product from a participating sponsor who pays Harbour and its IARs Additional Compensation.

Harbour and its IARs receive 12b-1 fees from certain mutual fund companies as described in the fund’s prospectus. 12b-1 fees typically are expenses of the mutual fund which reduce the overall return a client may receive on a mutual fund investment. The receipt of such fees by Harbour, its IARs and registered representatives also results in a conflict of

interest for Harbour and its IARs since there is an incentive to recommend funds with 12b-1 fees over funds that have no fees or lower fees. Clients are free to choose funds which do not pay 12b-1 concessions. Such funds, often called an “advisory” fund or “institutional share” fund usually makes a better low cost choice and offers the same or virtually the same product as funds which pay 12b-1 fees to Harbour and/or its representatives/advisers. Where it makes economic sense and like alternatives are available, Harbour will recommend products for clients that do not pay 12b-1 fees.

Harbour and its IARs enter agreements with solicitors who refer clients to Harbour for investment advisory services. Any compensation paid by Harbour to the solicitors for such referrals is based on the client executing an advisory agreement with Harbour. Compensation to the solicitor is paid based on a written agreement between Harbour and the solicitor and is based on a percentage of the advisory fee a client pays to Harbour. This fee is normally paid to the solicitor for the entire period the advisory agreement between the client and Harbour is in effect and is calculated based on the client’s Assets Under Management. Any Solicitor is required to provide the client with a copy of Harbour’s Form ADV Part 2A and an Investment Advisory Solicitors Disclosure Form. Clients acknowledge receipt of these disclosures by signing the Investment Advisory Solicitors Disclosure Form.

Item 12 – Brokerage Practices

Harbour considers various factors when selecting or recommending broker-dealers for client transactions. These include financial stability, fees and costs, customer service and transaction execution. Harbour regularly reviews costs at other firms and compares them to the costs it incurs at broker-dealers to determine the reasonableness of charges. Harbour does not receive research or other soft dollar benefits in connection with client securities transactions.

In certain circumstances, the cost to aggregate purchases or sale of securities may be higher than the cost of not aggregating due to extra ticket charge costs as well as market fluctuation. Generally Harbour does not aggregate the purchase or sale orders of securities for various accounts, but an IAR may sometimes conduct an aggregated “block trade.” All trades are reviewed by a registered principal of the broker-dealer for compliance purposes.

Harbour’s asset management – wrap programs may be a limited/full discretionary or non-discretionary platform. Trading is directed by the client or IAR subject to client’s chosen objective and strategies. Client (or IAR in a limited/full discretionary account) determines the securities to be bought or sold and the amount of the trades. The Wrap Fee Programs are described above and are also described in the Wrap Fee Brochure Appendix which Harbour provides to clients and prospective clients.

Harbour’s third party managers offer discretionary platforms. Trading is directed by the adviser, and sometimes by a sub-adviser to whom discretionary authority is granted. Subject to client’s chosen objective and strategies adviser will determine securities to be bought or sold, price, timing and broker/dealer that adviser and/or sub-adviser believes is capable of providing best price and execution of client orders.

Harbour and its IARs must obtain the “best execution” of client transactions. The determination of what constitutes best execution of a securities transaction by a broker involves a number of considerations and is subjective. Factors affecting brokerage selection include the overall direct net economic result to the portfolios, the efficiency with which the transaction is effected, the ability to effect the transaction at all where a large block is involved, and the operational facilities of the broker-dealer, the value of ongoing relationship with such broker/dealers and the financial strength and stability of the broker.

Clients are always free to direct where they wish transactions in their advisory account be executed. If a client declines to direct Harbour to a custodian or broker to execute trades, Harbour will choose a broker based on the best execution criteria suggested above.

In some instances, Harbour’s use of particular brokers and/or custodians may result in actual and potential conflicts of interest. These are discussed above under “Conflicts of Interest” in Item 11.

Item 13 – Review of Accounts

Accounts receiving asset management within a wrap fee program are monitored by a client’s IAR on a continuous basis. The frequency of client reviews is determined by the investment mix of the account and the desire of the client. Such reviews may also be triggered by economic news, news about a particular security, client requests, change in client’s personal or financial situation, securities research, and deposits to or withdrawals from an account or other events.

Harbour conducts, on an annual basis, a compliance spot check of advisory accounts. The review is conducted by a registered principal of Harbour and, among other things, reviews the reasonableness of the advisory fee within the context of the services provided and other needs of the client.

If Harbour and its IAR become aware of changes in a client’s financial circumstances or objectives, it informs the client’s manager. Updated financial information about a client is not collected by Harbour and IAR on a regular basis or given to a manager unless Harbour and IAR are made aware of changes by the client. Clients also communicate changes directly to the client’s portfolio manager.

Item 14 – Client Referrals and Other Compensation

As indicated in Item 11 above in the discussion of Conflicts of Interest, there are relationships Harbour has entered into which provide economic benefit to Harbour and/or its IARs. Please refer to Item 11 above for a full discussion of such conflicts including situations regarding referrals both by Harbour and to Harbour and/or its IARs.

Item 15 – Custody

Harbour does not have custody of client funds or securities. Clients should receive at least quarterly statements from the broker-dealer or other qualified custodian that holds and maintains client's investment assets. Harbour urges you to carefully review such statements.

Item 16 – Investment Discretion

Harbour may accept a limited discretionary authority to manage securities accounts on behalf of its clients in asset management services; otherwise, the client dictates all trading activity. In a limited discretionary account, a client gives Harbour limited authority to rebalance a client account portfolio consisting of mutual funds and/or exchange traded funds. IAR and client must have a signed power of attorney or discretion agreement which includes the name of the person with discretionary authority, the date discretion was granted and discretionary authority limits.

Harbour and a client may also contract for a full discretionary account. In such cases, a client gives the IAR and Harbour discretion and authority to choose which securities are traded, including the timing and amount of each trade. This is done without the need to obtain prior consent from the client. Clients grant this authorization by executing a discretionary trading power of attorney. All other aspects of a full discretionary account follow the non-discretionary account noted directly above.

There are no restrictions on a client's ability to contact and consult with their IAR or manager in any account, including limited or full discretionary accounts.

Item 17 – Voting Client Securities

Harbour does not vote proxies on behalf of advisory clients. Clients retain the responsibility for receiving and voting proxies for any and all securities maintained in client portfolios. Harbour may provide advice to clients regarding the client's voting of proxies.

Item 18 – Financial Information

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about Harbour's financial condition under particular circumstances. Harbour has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding. Harbour does not require or solicit prepayment of fees of more than \$500 by or per client, six months or more in advance.