

**Item 1. Cover Page**

## **Form ADV Part 2A**

### **SII INVESTMENTS, INC.®**

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**Appleton, WI 54913**

**(800) 426-5975**

**[www.siionline.com](http://www.siionline.com)**

**April 22, 2016**

**This Brochure provides information about the qualifications and business practices of SII Investments, Inc.®. If you have any questions about the contents of this Brochure, please contact us at the above phone number. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority.**

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

**SII Investments, Inc.® is an SEC-registered investment advisor; however, registration itself does not imply a certain level of skill or training.**

## Item 2. Material Changes

We may update this Brochure at any time but are required to promptly send clients a copy of any material changes to our disclosures upon doing so. In addition, we will also deliver an annual summary of all material changes that occur to this Brochure along with an offer to provide you with a current version. The following updates have been made to this Brochure since the last annual update of March 27, 2015.

- Item 4 “Program Descriptions” has been expanded to include an overview of Discretionary TAMP Platforms available through our Programs.
- Item 4 “Program Descriptions” has been updated to include additional disclosures under the section entitled “Benefit Plan Accounts” relevant to certain retirement accounts.
- Item 5 “Fees and Compensation” has been updated in relation to conflicts of interest that may arise due to platform administrative fee discounting by certain Programs, under the sub-heading “Platform Administrative Costs.”

You may request copies of this Brochure by contacting us at (800) 426-5975, e-mailing us at [advisory@siionline.com](mailto:advisory@siionline.com), or downloading it from our website at [www.siionline.com](http://www.siionline.com) or the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)

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## Item 4. Advisory Business

### Firm Overview

SII Investments, Inc.® (“SII”) is an investment advisor registered with the SEC that provides a range of investment advisory services to clients through its licensed Investment Advisor Representatives (“Representatives”). SII and its Representative may be referred to as “us,” “we” or “our” in this document, and clients may be referred to as “you” and “your.” Although SII also offers brokerage and certain other investment related services, this document is limited to describing the investment advisory services we provide to clients. SII has been in business since 1969 and is a direct subsidiary of National Planning Holdings, Inc., which is a Delaware based holding company that itself is an indirect subsidiary of the Prudential plc, a company incorporated in England and Wales. Prudential plc and its affiliated companies constitute one of the world’s leading financial services groups. It provides insurance and financial services through its subsidiaries and affiliates throughout the world. Prudential plc is not affiliated in any manner with Prudential Financial, Inc., a company whose principal place of business is in the United States of America.

### Types of Advisory Services

SII’s investment advisory service offerings are referred to in this Brochure as “Programs” and consist of three general categories—our proprietary WealthONE® Program, Maxim Program and Third Party Asset Manager (“TPAM”) Programs.

### PROGRAM DESCRIPTIONS

#### WealthONE® Programs

SII’s WealthONE® Program offers a wide range of investment opportunities through our investment advisory platform. Several of these options are outlined in this brochure—Advisor Solutions, Advisor Fund Solutions and Guaranteed Income Solutions. As your investment advisor, SII assumes a “fiduciary” role and obligation to act in your best interest when providing investment advice regarding management of your investments. In so doing, our Representative provides personalized investment advice and recommends or selects investments based on the client’s “Investment Profile Information” (which is explained under the *Individual Investment Approach* section below on page 7).

The following Programs are offered on both a non-discretionary or discretionary basis. *Non-discretionary services* require clients to approve each securities transaction recommended by the Representative before it can occur, and *discretionary services* authorize the Representative to buy, sell or exchange securities in client accounts without obtaining their consent prior to each transaction. You have the option of selecting whether or not to grant SII discretionary authority over your investment accounts.

- a. **Advisor Solutions.** For Advisor Solutions Program accounts, our Representative may make investment recommendations from a wide range of different asset classes (for example, stocks, mutual funds, bonds, etc.) based on use of asset allocation software and models. Asset allocation models are generally designed to achieve diversification of investment types to reduce the risk of loss due to variation of investment returns of any particular asset class. Our Representative will work with you to develop and implement a personalized investment portfolio based on your determined risk tolerance and investment objectives.

- b. Advisor Fund Solutions.** This Program provides access to a select list of no transaction fee (“NTF”) mutual funds, which enable clients to purchase mutual funds without incurring an upfront transaction or commission expense. As with Advisor Solutions, our Representative may make investment recommendations using asset allocation software and models designed to achieve diversification and personalized investment objectives based on your risk tolerance and investment objectives.
- c. Guaranteed Income Solutions.** Under this Program, SII makes insurance products available which are offered by a select group of reputable third party insurance carriers not affiliated with SII. These products are offered on a “no-load” basis, meaning that no commission is assessed on their sale. Instead, an ongoing management fee is charged by our Representative who will use asset allocation software and modeling tools to recommend and assist you with managing the insurance product in which you are invested. You should refer to and carefully read the terms and conditions of the insurance contract and prospectus provided by the insurance carriers for more specifics regarding your participation, investment rights and obligations for the various insurance products offered under the Program.

### **Maxim Program**

Under the Maxim Program, our Representatives provide investment advisory services to clients based on the client’s Investment Profile Information in the same manner as described above for the Advisor Solutions Program. However, the Representative may elect to use one or more alternative broker-dealers other than Pershing LLC (“Pershing”) to execute securities transactions, custody client assets, and service client accounts, as explained in more detail under Item 12 below. As a result, performance reporting and the level of other account services may be unavailable or more limited for clients with Maxim Program accounts than electing to establish an account at Pershing with which SII has a more formal arrangement as an introducing broker-dealer.

### **Third Party Asset Manager Programs**

SII’s TPAM Program provides clients with the opportunity to have their investment portfolios professionally managed by independent money managers unaffiliated with SII through arrangements we have negotiated with certain TPAMs that we have selected to participate in the Program. In addition, SII has certain arrangements with TPAMs under which your Representative may manage your investments using the TPAM’s asset management platform (or “TAMP”), rather than doing so through our WealthONE® platform.

TPAMs are selected by SII based on these firms satisfying our due diligence review process and requirements. In limited situations, we may waive certain of these requirements and may also limit the services provided by some TPAMs to a “service only” relationship, under which no new client assets are placed under the TPAM’s management. Under these Programs, SII and your Representative do not generally exercise any investment discretion. However, an exception exists under limited situations in the case of discretionary TAMP platforms which enable your Representative to actively use a TPAM’s investment platform to manage your account, rather than delegating portfolio management or selection responsibility to a TPAM, as further explained below.

The investment strategies and types of investments utilized by each of the TPAMs participating in the Program vary, and we will recommend a specific TPAM based on the Investment Profile Information provided by clients. SII contacts clients at least annually to

determine whether there have been any changes to their Investment Profile Information, and we remind clients to notify us of any such changes on a quarterly basis. TPAM Program services include investment portfolio analysis, asset allocation modeling and analysis, trade execution, performance monitoring, portfolio reporting and other related investment services, although the level of such services provided by SII may vary depending upon the type of TPAM Program.

TPAM Program arrangements fall into one of three categories—Sub-Advised, Solicitor or Discretionary TAMP Platform based arrangements. The type of Program arrangement will dictate our legal relationship with you and the TPAM you select, as well as the level of servicing we provide.

- a. Sub-Advised TPAMs.** Under sub-advised arrangements, SII will provide you with “investment advice” and serve as a “fiduciary” to you in accordance with the Investment Advisers Act of 1940 (“Advisers Act”). This may involve the provision of specific investment advice or recommendations regarding investments in your Portfolio, in addition to ongoing supervision and monitoring of your Portfolio’s performance.
- b. Solicitor TPAMs.** Solicitor arrangements involve our referral of you as client to a TPAM, which is solely and exclusively responsible for providing ongoing investment advice and management services to your Program Portfolio. In our role as a solicitor under such an arrangement, SII is compensated for referring you to a TPAM to manage your Portfolio, and for assisting in the establishment and ongoing administration of your TPAM relationship and Portfolio. Solicitor arrangements are also governed by the Advisers Act, however, we do not provide investment advice or serve as a fiduciary under such an arrangement. If you select a TPAM with which we have a solicitor-based arrangement, you will receive a Solicitor Disclosure Form outlining further details of our arrangement with the TPAM.
- c. Discretionary TAMP Platforms.** As noted above, certain TPAMs may make their proprietary asset management platform available to SII enabling your Representative to either (i) personally manage your investment portfolio using the TPAM’s technology platform and investment tools or (ii) select among a range of model investment portfolios managed by various other TPAMs made available through these platforms. Under these arrangements, the TPAMs do not provide investment advice, have a direct relationship or act as a fiduciary to clients, and the model portfolios are managed at an omnibus level without regards to your personal Investment Profile. However, your Representative will consider such in recommending or selecting a particular model portfolio on your behalf and will monitor its performance and periodically consult with you to ensure it remains suitable with your Investment Profile. In some cases, the account opening documentation and agreement presented to you by a TPAM may grant your Representative additional authorizations beyond those outlined in your advisory agreement with SII, such that you should carefully review these documents to ensure they correspond with your intentions.

Under either type of TPAM Program, clients enter an agreement with SII outlining our role and responsibilities. Clients also enter an agreement with the TPAM that typically provides the TPAM with trading discretion to determine which products to purchase, sell and/or

exchange on behalf of clients without having to obtain client approval for each transaction initiated. Upon request, Representatives are available for periodic consultations with clients regarding the TPAM's management of their account.

Since each TPAM is uniquely structured with different investment products, please ensure that you carefully review (i) the TPAM's Form ADV Part 2A and 2B or alternate disclosure brochure for specific Program descriptions; (ii) the TPAM's client agreement for specific contractual terms; and (iii) any additional disclosure or offering documentation provided by the TPAM related to its services or investment products. Among other important information, the TPAM's Form ADV Part 2A and 2B or alternate disclosure brochure will have specific information describing: methods of analysis and investment strategies, conflicts of interest, disciplinary actions, fee calculation and deduction, fee schedules, refund policies, minimum account sizes, termination procedures, and proxy voting policies (which may permit you to nominate the TPAM to exercise voting rights regarding your investments). You should also be aware that certain TPAMs may utilize back-tested hypothetical performance modeling in marketing materials which attempt to estimate the potential performance of their investment products based on past performance of selected investments. Please note that these types of performance projections are created retroactively with the benefit of hindsight, and do not reflect actual investment results or guarantee future results.

You may obtain a copy of each TPAM's Form ADV Part 2A providing the same information contained in this brochure by visiting [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) or upon request from the TPAM. You may also request Form ADV Part 2B from the TPAM, which contains detailed information about the individual TPAM representative(s) who will be responsible for managing your assets.

### **Individual Investment Approach: Investment Profile Information**

The investment advisory services we offer to each client will vary in type and complexity, depending on a client's individual investment goals and circumstances. Generally, our services begin with the Representative gathering information from you regarding your financial circumstances, investment objectives and risk tolerance, which together we refer to as the "Investment Profile Information." This information assists the Representative in determining which services and investments are most appropriate to recommend or select on your behalf. It is important that you provide accurate and complete responses to the questions asked by the Representative in gathering your Investment Profile Information, and that you promptly inform the Representative of any subsequent changes to your Investment Profile Information.

### **Client Exclusions and Security Restrictions**

In certain situations, clients may request a restriction on the types of investments purchased on their behalf, based on either general social categories or specific securities. However, doing so may impact the performance of a client's account and it may differ from accounts without the same restrictions.

### **Benefit Plan Accounts**

Program accounts may be established for (a) employee benefit plans described in Section 401(a) or 403(a) of the Internal Revenue Code of 1986, as amended (the "Code"); (b) individual retirement accounts or annuities as defined in Section 408 of the Code ("IRAs"); or (c) other plans or arrangements subject to the Employee Retirement Income Security Act

of 1974, as amended (“ERISA”) or Section 4975 of the Code (collectively, “Benefit Plan”). We may provide Services to responsible plan fiduciaries or their designees, as well as participants of self-directed retirement plans. For plan level arrangements, an investment strategy is chosen by an independent fiduciary (not NPH) that is responsible for overseeing the respective Benefit Plan (or the Benefit Plan participant for certain self-directed participant accounts, IRAs or other accounts that do not have independent fiduciaries). The selected investment options and restrictions, if any, then serve as the Investment Policy Statement for the Program account. We do not serve as the trustee or plan administrator for any Benefit Plan.

For Program accounts established for Benefit Plans, the investments and fees under the Program are intended to comply with applicable exemptive relief under ERISA and the Code permitting our receipt of such fees. In connection with that relief, as it applies to arrangements involving the furnishing of services to Benefit Plans that are “covered plans” within the meaning of U.S. Department of Labor Regulation §2550.408b-2(c)(1)(ii), the following disclosures are provided:

- The Services provided under the Program are described in your investment advisory, solicitor and/or brokerage account agreements with SII, together with this Brochure.
- In providing Services under the Program, SII is acting as an investment adviser registered under the Investment Advisers Act of 1940, with exception of our TPAM Solicitor Program under which we serve as a solicitor and do not provide investment advice.
- In providing Services under the Program, SII is also acting as a fiduciary (within the meaning of Section 3(21) of ERISA) with respect to the Program, with exception of Services provided under our Solicitor TPAM Program which are non-fiduciary in nature.
- The “direct compensation” (within the meaning of U.S. Department of Labor regulation §2550.408b-2(c)(1)(iii)(D)(2)) that SII expects to receive in connection with the provision of services under the Program consists of (a) the Management Fee, as described in the section of this Brochure entitled “Fees and Compensation” under Item 5 and within the Fee Schedule to your investment advisory or solicitor agreement with us. As noted under Item 5, you may also pay various fees to the custodian, TPAMs, other third party services and for special services requested which are not covered by the Management Fee. A detailed list of these fees is available through your Representative. SII does not expect to receive any “indirect compensation” under the Program within the meaning of U.S. Department of Labor Regulation §2550.408b-2(c)(1)(iii)(D)(2) based on its investment advice or specific investment recommendations and, as applicable, may rebate any such compensation received to the Benefit Plan as outlined under Item 14.
- Upon termination of your participation in the Program, you will receive a pro-rata rebate of any Management Fees which have been paid in advance.
- Neither SII, our Representatives or our respective affiliates or subcontractors provide recordkeeping services under the Program.



- If you are an individual account plan (as defined in Section 3(34) of ERISA) that permits participants and beneficiaries to direct the investment of their accounts and one or more designated investment alternatives for the plan is provided through the Program, you will be provided a copy of the prospectus or other offering materials for each such designated investment alternative that describes (i) any compensation charged directly against investment in the designated investment alternative; (ii) the total annual operating expenses for the designated investment alternative, expressed as a percentage and calculated in accordance with U.S. Department of Labor §2550.404a-5(h)(5); and (iii) any other material information that is required for the administrator of the plan to comply with the disclosure obligations described in U.S. Department of Labor §2550.404a-5(d)(1).
- If there is any material change to information described in the above Benefit Plan disclosures, to this Brochure more generally or in relation to your investment advisory and brokerage agreements with SII, you will be notified of such change within at least thirty (30) days from the date on which we learn of the change.
- For retirement plan sponsors, we will arrange, upon the reasonable request of your independent plan fiduciary or plan administrator, to furnish any other information relating to the compensation received in connection with the furnishing of Services under the Program that is required for you to comply with the reporting and disclosure requirements of Title 1 of ERISA and the regulations, forms, and schedules issued thereunder.

#### **Assets Under Management**

SII has \$3,146,161,555.77 in discretionary assets under management and \$1,079,701,886.91 in non-discretionary assets under management, calculated as of December 31, 2015.

### **Item 5. Fees and Compensation**

The fees we charge and compensation received for investment advisory services (“Management Fee”) will vary depending on the particular Program, products and services offered, as outlined below. A portion of the Management Fee is applied towards platform administrative costs incurred for providing access to our Programs, and is deducted from the amount of Management Fees payable to your Representative (see sub-section (a) below for additional details). All fee arrangements are negotiable and SII may agree to waive or reduce its Management Fee or any other applicable fees or costs either on an ongoing or a one-time basis.

Fees are automatically billed by us in advance, according to one of three fee schedules outlined below, based on the fair market value of a client’s portfolio as reported to us by the independent custodian at which your assets are held. Under the Linear Fee Schedule, the Management Fee corresponding with your portfolio value is applied towards the entire value of your portfolio, whereas the Management Fee for the Tiered Fee Schedule is applied by corresponding asset tier with each successive level achieved receiving the lower fee stated on the Fee Schedule. The Flat Percentage Fee Schedule is described below.

The total amount of Management Fees you pay under the Program may vary depending on which of the following Fee Schedules is selected. Your actual Management Fee will be

determined and outlined within the Asset Management Services Agreement between you and SII, which you will receive and sign separate from this Brochure.

***Standard Linear Fee Schedule***

<b>Portfolio Value</b>	<b>Maximum Annual Fee</b>
\$0 - \$49,999.99	2.75%
\$50,000 - \$99,999.99	2.75%
\$100,000 - \$249,999.99	2.50%
\$250,000 - \$499,999.99	2.25%
\$500,000 - \$749,999.99	1.90%
\$750,000 - \$999,999.99	1.75%
\$1,000,000 - \$1,249,999.99	1.75%
\$1,250,000 - \$1,749,999.99	1.50%
\$1,750,000 - \$1,999,999.99	1.40%
\$2,000,000 - \$2,999,999.99	1.40%
\$3,000,000 - \$3,999,999.99	1.40%
\$4,000,000 - \$4,999,999.99	1.40%
\$5,000,000 - \$9,999,999.99	1.40%
\$10,000,000 +	1.40%

***Standard Tiered Fee Schedule***

<b>Portfolio Value</b>	<b>Maximum Annual Fee</b>
\$0 - \$49,999.99	2.75%
\$50,000 - \$99,999.99	2.75%
\$100,000 - \$249,999.99	2.50%
\$250,000 - \$499,999.99	2.25%
\$500,000 - \$749,999.99	1.90%
\$750,000 - \$999,999.99	1.75%
\$1,000,000 - \$1,249,999.99	1.75%
\$1,250,000 - \$1,749,999.99	1.50%
\$1,750,000 - \$1,999,999.99	1.40%
\$2,000,000 - \$2,999,999.99	1.40%
\$3,000,000 - \$3,999,999.99	1.40%
\$4,000,000 - \$4,999,999.99	1.40%
\$5,000,000 - \$9,999,999.99	1.40%
\$10,000,000 +	1.40%

***Flat Percentage Fee Schedule***

An annual percentage fee is negotiated and charged to the client. The annual percentage rate will not vary regardless of whether your portfolio value increases or decreases.

***Flat Dollar Fee Schedule***

Depending upon the type of scope of services, your Representative may elect to negotiate a flat dollar-based fee payable either on a one-time or periodic basis.

## **Additional Fee Calculation Information**

**Billing Frequency.** Your Management Fee will be billed on either a monthly or quarterly basis in accordance with the billing arrangement established between SII and your Representative, and as indicated in your Asset Management Services Agreement.

- **Monthly Management Fee Billing.** The initial fee for the first calendar month in which a client participates in a Program shall be calculated on a pro-rata basis beginning the day after initial assets are deposited in the Program, and is debited the following month along with the fees for the next calendar month. Fees are subsequently calculated at the beginning of each calendar month, based on the fair market value of the portfolio on the last business day of the prior calendar month. If our relationship with a client terminates and all assets are withdrawn from the Program prior to the end of the month, we will issue a refund for the pro-rata portion of the fee owed to the client.
- **Quarterly Management Fee Billing.** The initial fee for the first calendar quarter in which a client participates in a Program shall be calculated on a pro-rata basis beginning the day after initial assets are deposited in the Program, and is debited the following month. Fees are subsequently calculated at the beginning of each calendar quarter, based on the fair market value of the portfolio on the last business day of the prior calendar quarter. If an account is opened in the last month of a calendar quarter, fees will be calculated and debited for the remaining period in that calendar quarter, along with fees for the next calendar quarter, on the day after initial assets are deposited. If our relationship with a client terminates and all assets are withdrawn from the Program prior to the end of a quarter, we will issue a refund for the pro-rata portion of the fee owed to the client.

**Early Termination Fee.** If a client terminates their relationship with SII within the first twelve months, an administrative fee of \$100 may apply at our discretion to offset associated termination costs. Any prepaid fees will be refunded to the client on a pro-rata basis in the event of termination.

**Fee Billing Notices.** SII will send billing notices to each client showing the amount of the management fees charged for the period, the value of the account assets on which Program fees are based, and the manner in which the Program fees were calculated. It is the client's responsibility to carefully review account statements and fee deductions since the custodian does not determine the accuracy of fees deducted by us.

The services offered by the Programs may cost clients more or less than purchasing the same services separately and/or through other channels. Factors that impact the cost of the Programs in relation to the cost of the same services purchased separately include the type and size of the client's portfolio, the historical and/or expected size or number of trades for the client's portfolio, and the number and range of supplemental advisory and related services provided. Clients may pay fees other than those listed above that are based on fee schedules in effect prior to their becoming clients of SII or on fee schedules no longer in effect for new SII clients, depending on their client agreement.

**Additional Program-specific fees may be assessed as follows:**

**a. Advisor Solutions and Advisor Fund Solutions**

**Mid-Cycle Fee Adjustments.** If a client deposits assets (cash and securities) with a market value of ten-thousand dollars (\$10,000) or more in an account on any given day after the inception of a calendar quarter, the amount of the deposit will immediately be subject to a pro-rated fee based on the applicable Fee Schedule. Clients shall be entitled to a fee rebate calculated in the same manner if account assets are withdrawn in excess of this amount on any given day.

**Householding.** SII may allow direct family members or clients sharing the same household address with multiple accounts to aggregate assets for purposes of calculating fees according to the above fee schedules.

**Platform Administrative Costs.** As noted above, the Management Fee includes a platform administrative fee that is not shared with your Representative. The amount of these administrative costs is deducted from the portion of the Management Fee payable to your Representative, and varies for each Program depending upon (i) amounts SII is compensated and assessed by various third party service providers to each Program and (ii) factors such as the size of your account and the amount of assets under management by your Representative. The Management Fee for Advisor Fund Solutions includes a built in administrative fee of up to 10 basis points (0.10%) whereas this amount is up to 20 basis points (0.20%) for Advisor Solutions.

SII may discount the amount of the administrative fee charged to our Representatives for certain Programs based on the total value of their clients' assets under management in these Programs. This has the potential to result in an incentive for your Representative to recommend these Programs where applicable due to the increased net portion of the Management Fee they may receive, as also explained in more detail under Item 14 "Recruiting Incentives; Administrative Fee Discounting." Please consult your Representative to learn more details regarding the applicable administrative fee that is included within your Management Fee for the Program you select versus other Programs.

**Clearing and Service Provider Charges.** SII reserves the right to pass on charges imposed by the clearing broker-dealer (the firm through which we arrange for securities transactions to occur) or other service providers to the client. These fees include, but are not limited to, transaction charges and service fees, IRA and qualified retirement plan fees, mutual fund 12b-1 fees (an expense charged against fund assets by fund companies that is paid to broker-dealers such as SII to assist with marketing and servicing fund sales) and subtransfer agent fees (an expense charged against fund assets by fund companies that is paid to record keeping firms who provide fund accounting and administration services), mutual fund and money market management fees and administrative expenses, mutual fund transaction fees, deferred sales charges (certain mutual funds charge a fee when you sell shares of the fund) on previously purchased mutual funds or variable annuities products transferred into the portfolio, and other charges that are assessed by third parties. As described in SII's Premier Product Sponsor and Revenue Sharing Disclosure (a copy of which is available on SII's website and through our Representatives), SII and its

Representatives may receive revenue sharing or other types of payments or marketing reimbursements from certain firms, including Pershing in its role as a selected clearing broker-dealer and custodian for client assets, from the revenue earned by these firms from client fees. See Item 14 below for additional details regarding certain revenue sharing arrangements that may benefit SII and its Representatives, and related conflicts of interest.

**Internal Fees by Product Sponsors.** Certain investments may have internal fees and costs which are not assessed by SII and will not appear on your account statement, such as internal management fees for mutual funds charged by the fund manager, which can impact the returns on your investments as an internal operational expense assessed by the investment sponsor for managing the investment. Higher internal operating expenses will generally have an adverse impact on the rate of return to investors. The prospectus or offering documents for mutual funds, annuities, REITs or other investments will detail the fees and charges assessed by the managers of those products. Clients should be aware that when assets are invested in shares of mutual fund products, annuities, UITs or REITs, clients will pay both the direct management fees to SII for its services in connection with these investments and management and other fees paid to the mutual fund company or other product sponsor. In the case of mutual funds, “no-load” funds may be available which do not assess a commission or sales charge (unlike “load” funds).

Clients should also be aware that individual mutual funds typically offer a range of different share classes that result in both varying internal operating expenses and compensation to the Firm and Representative, depending upon the share class selected. Please see “Mutual Fund Share Classes” under Item 14 below for more details regarding share classes and related conflicts of interest. Additionally, clients may be able to invest directly in the mutual fund's shares and other investments without incurring the fees charged by SII, and may also purchase investment products that we recommend through other brokers or agents not affiliated with us.

In addition, there may be tax effects relating to fund share redemptions or the cancellation of policies made by or on behalf of clients, as well as deferred sales charges or redemption fees where investment positions are sold prior to the expiration of a specified holding period.

**b. Guaranteed Income Solutions Fees**

**Carrier, Insurance Product and Miscellaneous Fees.** The Management Fees payable to SII for participation in the Program are separate from additional fees which are payable to the carrier or pursuant to the terms governing the insurance products. SII reserves the right to pass on to you all fees and other charges imposed by the carrier, the insurance products and/or any related transactions in connection with your account. Please consult the prospectus, insurance contract, and any related fee schedules provided by the carrier for the respective insurance products for more information regarding their fees.

- c. Maxim Program Account Fees.** These may be payable quarterly either in advance or at the end of each quarter, depending on the arrangement agreed upon between the Representative and client. Fees are calculated based upon the fair market value of the assets in the client's portfolio at the end of the immediately preceding quarter.

The custodian with which client assets are custodied will determine the fair market value of client assets for fee calculation purposes, and invoices will be prepared and delivered directly by the Representative as opposed to SII performing this function.

- d. **TPAM Program Fees.** These are assessed directly by the TPAM in accordance with their respective billing terms. Fees are detailed in the respective TPAM's client agreement, fee schedule and/or Form ADV Part 2A disclosure brochure and are not determined by SII. TPAM fees may be calculated based on either (i) the fair market value of the assets being managed; or (ii) on a performance-based fee criteria, depending on the TPAM Program. We will not charge any additional fees; however, we do receive a portion of the fees charged by TPAMs pursuant to our arrangement with them.
- e. **Compensation for the Sale of Securities.** SII and our Representatives may receive direct and indirect forms of compensation related to the sale of securities or other investment products to clients. The receipt of this type of compensation presents a conflict of interest and gives us an incentive to recommend investment products or a Program involving the sale of such investment products based on the compensation received, rather than on a client's needs. Please see Item 14 below for additional details regarding our receipt of this type of compensation, the conflicts it creates, and how we address these conflicts.

## **Item 6. Performance-Based Fees and Side-by-Side Management**

SII does not permit its Representatives to be compensated based on a share of the capital gains or capital appreciation of Program assets in a client account, also known as performance-based fees.

## **Item 7. Types of Clients**

SII provides its advisory services to a variety of different client types, including individuals, corporate entities, trusts, and pension plans and their participants. Certain account balance minimums must be met for a client to participate in SII's Programs and may result in termination of the client agreement if these minimums are not maintained. We reserve the right to amend or waive these requirements at any time.

**Advisor Solutions and Maxim Program** accounts generally have an initial account minimum of \$25,000.

**Advisor Fund Solutions Program** accounts generally have an initial account minimum of \$10,000.

**Guaranteed Income Solutions Program** accounts require an initial investment of at least \$25,000 to participate in the Program, although this amount may vary depending on the respective carriers' policies.

**TPAM Program** accounts minimum opening portfolio balance requirements vary according to each TPAM. Generally, account minimums range from \$50,000 to \$250,000. Other terms

may apply to account opening and maintenance, as outlined in the TPAM's client agreement.

## **Item 8. Methods of Analysis, Investment Strategies and Risk of Loss**

Our Representatives may rely on a number of tools to assist in recommending or selecting an investment strategy to clients, including asset allocation and portfolio modeling software that assists with their analysis of investment options when recommending or purchasing investments for your portfolio. Although our advisory services are generally designed for long-term investing in which investment positions are maintained for a longer period of time (also referred to as "strategic" investing), short-term investment strategies which aim to take advantage of frequent market movements (also referred to as "tactical" investing) may also be made available to accommodate certain circumstances. Investment returns, particularly over shorter time periods, are highly dependent on the value of securities within an investment portfolio which are impacted by trends in the various investment markets. As a result, our investment advisory services are generally more suited for investors seeking long-term investment objectives or strategies, rather than for short-term trading purposes. Under the TPAM Program, each TPAM will have its own methods of analysis, investment strategies and unique investment risks that should also be reviewed and considered.

SII may provide investment advice concerning various types of investments, including equity securities (exchange-listed securities, securities traded over-the-counter, and foreign issuer securities trading as American Depositary Receipts), warrants, commercial paper, corporate debt securities (other than commercial paper), certificates of deposit, municipal securities, investment company securities, variable annuities, variable life insurance, U.S. Government securities, option contracts, fixed insurance, unit investment trusts, exchange-traded funds, interests in partnerships involving real estate, oil and gas, certain types of structured investment products, and other investments, depending upon a client's Investment Profile Information. Our advisory services are generally designed for long-term investment strategies, although short-term investment strategies may be made available by Representative to accommodate certain circumstances.

Investing in securities and other investment products involves inherent risks, including the possible loss of the total principal amount invested. Although we seek to achieve the investment objectives and financial goals, past investment performance does not guarantee future results and we are unable to make any guarantees to clients with respect to avoiding monetary losses. These risks apply to both strategic long term and shorter term tactical approaches to investing. Clients should carefully read the terms of all agreements, product offering documents and related disclosures provided either by SII, TPAMs or product sponsors to better understand the risks associated with each Program and/or the particular investment product(s) under consideration.

## **Item 9. Disciplinary Information**

The disclosure requirements of this document require that SII disclose the following disciplinary information for your consideration:

**December 23, 2014 Florida Department of Financial Services administrative penalty of \$5,500** – SII entered into a Consent Order for failure to timely file applications for certain

branch locations engaged in the business of insurance as required by Section 626.112(7) of the Florida Statutes.

**October 27, 2005 NASD Censure and Fine of \$20,000**—SII was deemed to have insufficient supervisory procedures in connection with preventing Representatives from engaging in private securities transactions.

**September 23, 2005 NASD Censure and Fine of \$658,500**—Between January 2001 and December 2003, SII received fees for providing certain mutual funds with enhanced marketing opportunities to our Representatives, although we did not actually execute any trades for these mutual funds.

**July 26, 2004 NASD Censure and Fine of \$25,000**—SII consented without admitting or denying the allegations that our supervisory policies and procedures and documentation of variable product sales were insufficient.

**July 14, 2004 Securities Commissioner of the State of Kansas Stipulation and Consent Censure Payment of \$50,000 Payment (not deemed a fine) to State's Investor Education Fund**—SII agreed to an allegation that we failed to reasonably supervise an individual Representative.

**May 26, 2004 NASD Censure and Fine of \$100,000**—SII consented to a finding without admitting or denying allegations that our supervisory system and written procedures were insufficient to ensure that mutual fund orders received after the close of the market were processed at the next day's net asset value.

## **Item 10. Other Financial Industry Activities and Affiliations**

SII is an indirect, wholly owned subsidiary of Prudential plc, an international financial services group with operations in the United Kingdom, Europe, Asia, and the United States. We are affiliated by common ownership with a variety of financial services companies, including the following:

### **Broker-Dealers**

Investment Centers of America, Inc. ("ICA"), IFC Holdings, Inc. d/b/a INVEST Financial Corporation ("IFC"), National Planning Corporation® ("NPC®") and Curian Clearing, LLC are each registered as a broker-dealer and/or an investment advisor with the SEC and various state securities agencies, and each is a member firm of the Financial Industry Regulatory Authority ("FINRA").

Jackson National Life Distributors LLC ("JNLD") is a broker-dealer registered with the SEC and member firm of FINRA. JNLD acts as principal underwriter of variable insurance products issued by Jackson National Life Insurance Company® ("JNL®") and Jackson National Life Insurance Company of New York® ("JNLNY"). See also "Insurance Companies/Investment Companies" below.

Certain of our executive officers and directors also serve as officers and/or directors of these affiliated entities.



**Insurance Companies/Investment Companies**

JNL® and JNLNY issue variable annuity and life insurance products that are registered under the Investment Company Act of 1940, as amended. The separate accounts of JNL® and JNLNY that issue variable products are similarly registered as investment companies.

Brooke Life Insurance Company® is an insurance company offering traditional life insurance and annuity products.

**Investment Advisors**

ICA, IFC, NPC®, and Curian Capital, LLC are each affiliated with SII and investment advisors registered with the SEC.

Jackson National Asset Management, LLC® (“JNAM”) is an investment advisor registered with the SEC that serves as investment advisor to: the JNL Series Trust, the JNL Investors Series Trust, the JNL Variable Fund, LLC, the JNL Variable Fund III, LLC, the JNL Variable Fund IV, LLC, and the JNL Variable Fund V, LLC and (with respect to JNLNY) the JNLNY Variable Fund I, LLC, and the JNLNY Variable Fund II, LLC.

PPM America, Inc. (“PPM”) is an investment advisor registered with the SEC that serves as the investment manager for the general accounts of JNL® and JNLNY and as a sub-advisor to certain series of the JNL Series Trust and JNL Investors Series Trust. M&G Investment Management Ltd. is also a registered investment advisor that offers advisory and investment management services to investors, institutions, trusts, and investment companies.

**Referrals to Other Investment Advisors; Conflicts of Interest**

As explained in greater detail below under Item 14, we may receive compensation for recommending or selecting both affiliated and unaffiliated investment advisors to provide investment products or services to clients. SII monitors the sales practices and all forms of direct and indirect compensation received by our Representatives to ensure they are acting in compliance with SII’s policies and procedures which are designed to prevent abuses, and to ensure that compensation is within industry standards and compliant with securities laws, rules and regulations.

**Item 11. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

SII maintains a Code of Ethics in compliance with SEC requirements that is available upon request from SII or your Representative. The Code of Ethics applies to all SII Representatives and covered personnel and is designed to ensure we fulfill our fiduciary duty to clients by always acting in their best interest, avoiding conflicts of interest, and maintaining a strong culture of compliance by following all securities laws, rules and regulations. Among the specific areas addressed by our Code of Ethics as it relates to our Representatives and covered personnel are:

- Pre-approval and reporting of personal securities transactions by our personnel;
- Restrictions on initial public offering and private placement purchases to prevent unfair investment advantage;
- Insider trading prohibitions to prevent use of non-public information for unfair investment advantage;

- Reporting of gifts and business entertainment; and
- Penalties assessed for Code of Ethics violations to ensure its enforcement.

Although SII does not generally engage in principal transactions (where we enter a purchase or sale of securities with clients on behalf of our own account) or cross-agency transactions (where we broker the purchase or sale of securities between advisory clients), we may recommend or select certain insurance products which are sponsored by our affiliate, Jackson National Life Insurance. We may also engage transactions for our accounts or the accounts of others involving the same investments we recommend or select for our clients. Please refer to Item 14 below for more detailed information on these and various other conflicts of interest and how we address them.

## **Item 12. Brokerage Practices**

SII has an obligation to provide for “best execution” of client securities transactions and seeks to satisfy this by ensuring the best combination of net price and execution quality when effecting brokerage transactions for clients. In compliance with applicable securities laws, rules and regulations, we consider a range of factors when assessing our clearing brokerage relationship to make this determination, including:

- Transaction costs associated with the purchase and sale of investments;
- The trade execution, clearance, and settlement capabilities of the broker-dealer;
- The size of brokerage transactions accommodated;
- The efficiency and timing of brokerage transactions;
- The activity existing and anticipated in the market for a particular security;
- The nature of the securities being purchased or sold and access to purchasers and sellers within the investing marketplace (which may be limited due to thin trading activity or unavailability of certain securities);
- The financial stability and reputation of the executing broker-dealer; and
- The research products and other services provided for the benefit of SII and its clients.

SII regularly monitors the reporting of execution costs and quality to evaluate the brokerage services provided to its clients in comparison with industry standards, to confirm the reasonableness of our determination.

Based on these factors, SII generally requires Advisor Solutions and Advisor Fund Solutions Program clients to establish a brokerage relationship with Pershing, for whom we serve as an introducing broker-dealer pursuant to a clearing agreement between SII and Pershing (see Directed Brokerage section below). Guaranteed Income Solutions clients will either have their assets held directly with the respective insurance carrier or third party custodian, as determined by the carriers, in addition to establishing/maintaining a brokerage account through SII for fee payment purposes.

### **Maxim Program**

Clients participating in the Maxim Program may establish accounts at Pershing, TD Ameritrade Institutional Services (a division of TD Ameritrade, Inc.), Schwab Institutional (a division of Charles Schwab & Co., Inc.), Fidelity Investments, or TIAA-CREF Individual Institutional Services, LLC. If a client neither designates a broker-dealer nor uses SII’s

available broker-dealer services, SII will direct security transaction orders for the client's portfolio to a broker-dealer selected by SII, based on terms we deem acceptable and beneficial to the client, consistent with our "best execution" obligations.

### **TPAM Program**

Under our TPAM Program, the TPAM is responsible for determining best execution and typically predetermines the broker-dealer relationship as should be detailed in the TPAM's disclosure documents and agreements, which should be carefully reviewed by clients.

### **Research and Other Soft-Dollar Benefits**

SII does not allocate or direct brokerage transactions to the broker-dealer executing client transactions based on our receipt of products or services (referred to as "Soft-Dollar Transactions").

### **Directed Brokerage**

As noted above, clients who participate in either the Advisor Solutions or Advisor Fund Solutions Programs are generally required to establish a brokerage account with Pershing, whereas Maxim Program clients may select from several other custodians listed below. In all cases, the selected custodian of client funds and securities maintains these in brokerage accounts registered in the client's name, in addition to effecting trades in client accounts, providing cashiering functions, sending trade confirmations and periodic account statements to clients, and providing portfolio reporting and account administration services.

You should be aware that SII is compensated by Pershing when client securities transactions are executed through Pershing. This industry practice is generally known as "payment for order flow" and does not affect the quality of execution services or SII's duty to obtain best execution for clients. Client transactions executed through Pershing also pay ticket and confirm charges on their transactions that may include an additional fee charged by SII in its role for servicing these transactions for clients. In addition, various other custodial, transaction, and account administration related fees or charges assessed or received by Pershing may include an amount that is paid to SII for our role in assisting with servicing of client accounts, including fees paid to Pershing for account maintenance, account transfers, margin lending (which enables clients to borrow money to buy additional investments by using existing investments as security collateral), handling of restricted stocks subject to regulatory sales limitations, returned checks, shipping/handling expenses, and account administration and shareholder servicing fees paid in connection with the sale of certain no transaction fee ("NTF") mutual funds.

Not all investment advisory firms require their clients to direct their brokerage business to a particular firm, and by doing so we may be unable to achieve most favorable execution and pricing for client transactions. Similarly, SII may agree to allow clients to establish brokerage arrangements with a firm other than Pershing upon request by a client. However, doing so may result in higher costs since we will be unable to obtain aggregated trade cost savings (see immediately below) or to pass along pricing discounts we receive from Pershing, and the extent of services and reporting available to clients through Pershing may be less favorable. You will receive notification if an alternative custodian is appointed to maintain your account, along with its contact information and additional details regarding the arrangement.

### **Aggregation of Trades**

Client trade orders are typically completed independently for each client's account. For

discretionary accounts, however, SII may purchase or sell the same securities or investments for a number of clients at the same time. In these situations, orders for the same security or investments may be combined or “aggregated” to facilitate best execution and to reduce brokerage commissions or other costs charged to clients.

SII places aggregated trade orders in a manner designed to ensure that no participating client is favored over any other client. Specifically, each client that participates in an aggregated transaction participates at the average share price for all of trades placed by SII to fulfill the entire trade order. Securities purchased or sold in aggregated transactions are typically allocated pro-rata to the participating client accounts in proportion to the size of the order placed for each account.

In situations where SII maintains discretion, we may increase or decrease the amount of securities allocated to each account if necessary to avoid holding odd lot (which refers to a trade order for less than the minimum number of shares or units of a security that may be purchased) or small numbers of shares for certain clients. Additionally, if the clearing firm is unable to fully execute an aggregated transaction and SII determines that it would be impractical to allocate a small number of securities among the accounts participating in the transaction on a pro-rata basis, SII may allocate these securities in a manner determined in good faith to be fair and equitable. Clients directing SII to effect trades through a broker-dealer other than Pershing should be aware that they may not benefit from the execution cost savings that may be obtained by aggregated trades placed through SII for discretionary accounts.

## **Item 13. Review of Accounts**

SII’s home office personnel, our Office of Supervisory Jurisdiction Branch Managers (referred to as “OSJs”), and our Representatives monitor client portfolios to identify situations that may warrant either a more detailed review or specific action on behalf of our clients. These reviews may be triggered by concerns regarding the suitability of investments in relation to a client’s Investment Profile Information, account inactivity and high concentrations in individual securities, among other factors.

For Advisor Solutions, Advisor Fund Solutions and Guaranteed Income Solutions Program accounts, we provide ongoing review of client portfolio holdings, communicate with clients at least annually, and remind clients at least quarterly to inform us of any changes to their Investment Profile Information to ensure the suitability of the investments in their portfolio, any social exclusions or investment restrictions, and all applicable rules and regulations. We also review the investment results of client portfolios on a regular basis and, where appropriate, we may change or recommend a change of the Representative for a client’s account. The extent to which we provide such investment related advice for TPAM Program accounts may vary depending upon whether the arrangement is sub-advised or solicitor based in nature—please consult with your Representative to confirm the contemplated level of servicing you will receive for TPAM accounts.

SII also provides clients with written periodic performance reports that include relevant portfolio information, such as asset allocation, account transactions, securities positions, the fair market values of investments in client portfolios, investment performance for the period, and advance billing notification. SII does not verify performance data provided to it by third

parties with the exception of the calculation methods and the related account holdings shown. Please refer to the specific Program agreements and related disclosure documents supplied prior to establishing an account to confirm the frequency of review and type of reports to be provided in connection with the respective Programs.

## **Item 14. Client Referrals and Other Compensation**

Clients need to be aware of, and consider, conflicts of interest related to direct and indirect forms of compensation and benefits SII and our Representatives may receive from third parties in connection with the sale of investment products and services to clients. These forms of compensation are in addition to client advisory fees we receive and create an incentive to recommend certain investment products based on the potential compensation received rather than on a client's needs.

SII maintains a Code of Ethics (see Item 11 above) and policies and procedures that are designed to ensure our Representatives act in the best interest of clients at all times. Representatives are limited in their ability to receive both an advisory fee and asset-based sales compensation or commissions (also referred to as "double-dipping"), and we closely monitor our Representatives' sales practices and all forms of direct and indirect compensation received to ensure they act in compliance with our policies and procedures, industry standards, and all securities laws, rules and regulations governing sales compensation practices.

Our Representatives may sell clients securities products and other investment and insurance products in their capacity as SII registered broker-dealer Representatives and as licensed insurance agents. We receive additional compensation in connection with this activity and the amount of compensation will depend on the type of product purchased. Representatives acting on behalf of SII in a broker-dealer capacity (as opposed to investment advisor) and/or an insurance agency will have a greater financial incentive to sell certain products as opposed to others (for example, a product issued by an affiliate and in the case of mutual funds those that have a higher 12b-1 fee than others). While securities sales are reviewed to confirm they are suitable for a client's Investment Profile Information by an appointed supervisor of SII, clients should be aware of these incentives.

**Premier Product Marketing Programs.** In compliance with applicable securities laws, rules and regulations, and upon entering into an agreement with the product sponsors of certain mutual funds, variable insurance products, REITs, Unit Investment Trusts and other investment products, as well as certain retirement platforms, SII and its Representatives may recommend or select these investment products or retirement platforms on behalf of clients where (i) SII receives commissions, service/sales charges, revenue sharing payments, payment for order flow or other forms of benefit as a result of a client's investment in such investment products or use of these retirement platforms; and (ii) SII or one of its affiliates is the investment advisor, sponsor, principal underwriter or other service provider and, as such, receives compensation as a result of the client's purchase of the investment product or use of these retirement platforms.

In the case of premier investment products, these payments to SII are not generally shared with our Representatives and may vary, depending on the Representatives' compensation arrangement with SII. These arrangements generally pay higher amounts for the sale of "packaged products" (like mutual funds, annuities and REITs) over individual stocks and

bonds. Clients should be aware that this presents a conflict of interest because SII and its Representatives may have a greater incentive to recommend or select investments or retirement platforms that provide greater compensation to SII or its affiliates. For more information, please see the “Premier Sponsor Program and Revenue Sharing Disclosure” contained on SII’s website at [www.siionline.com](http://www.siionline.com) under “Disclosures.”

**Premier TPAM Marketing Programs.** In compliance with applicable law, SII and its Representatives may recommend or select certain TPAMs to manage client accounts where we receive additional compensation or indirect benefits from the particular TPAM, in addition to the Management Fee payable to SII and Representative. Clients should be aware that this presents a conflict of interest because SII and its Representative may have a greater incentive to recommend or select TPAMs that provide additional compensation or benefits to us that is not provided by other TPAMs. For more information, please see the “TPAM Premier Sponsor Program and Marketing Support Payments Disclosure” contained on SII’s website at [www.siionline.com](http://www.siionline.com) under “Disclosures.”

**Mutual Fund Distribution and Servicing Revenue.** In its role as introducing broker-dealer, SII may receive a portion of various distribution and marketing fees payable to the Custodian by the managers of mutual funds held in client accounts, pursuant to Rule 12b-1 of the Investment Company Act of 1940 (referred to as “12b-1 fees”), in addition to related fund servicing or administration compensation in connection with the sale of certain no transaction fee (“NTF”) mutual funds (referred to as “shareholder servicing fees”). The amount of fees that are received will vary, depending on the particular mutual fund investments pursuant to distribution agreements between SII as a broker-dealer and the mutual fund sponsors. The payment of these fees to SII or your Representative may present an incentive to recommend certain mutual funds with higher compensation, thus giving rise to a potential conflict of interest you should be aware of and discuss with your Representative upon their recommending a mutual fund to you. SII may credit these fees to client accounts enrolled in the WealthONE® Programs where its Representative elects to forego receipt of such payments, and for certain qualified retirement accounts where required to ensure compliance with applicable laws, rules or regulations (see also Special Treatment of Certain Qualified Account Types below).

**Mutual Fund Share Classes.** Mutual funds typically offer multiple share classes for investment. You should be aware that the internal operating expenses assessed by a mutual fund, as well as the timing and amount of compensation received by the Firm and its Representative, will generally vary between the different share classes and can affect the overall performance and rate of return to investors.

For example, retail class A, B and C shares typically provide for higher upfront compensation, higher deferred compensation amounts upon liquidation, or higher ongoing 12b-1 fees, respectively, and in turn are likely to have higher operating expenses than institutional shares which may only be available to fee-based investment advisory or qualified retirement accounts and/or subject to minimum investment restrictions. Clients should not assume that they will be invested in the share class with the lowest possible operating expense.

The share classes that result in higher compensation to the Firm and its Representatives generally will also have higher operating expenses associated with them. This presents a conflict of interest and gives us a financial incentive to recommend share classes with higher operating expenses. However, a range of factors may be considered by your Representative

in determining the appropriateness of a particular mutual fund share class for your advisory account(s), including the Management Fee you are assessed either on account basis or in the aggregate at a household level, and whether 12b-1s or other amounts we receive are rebated to your account to offset a more expensive share class. We encourage you to ask your Representative about the various share class options available to you and the impact the different share classes may have both on the compensation we receive, and the investment cost and total Management Fee you pay.

**Advisor Fund Solutions.** The investments offered under the Advisor Fund Solutions Program are limited to NTF mutual funds which pay 12b-1 fees and shareholder servicing fees to SII, as described under “Mutual Fund Distribution and Servicing Revenue” above. This may result in an increase to mutual fund operating expenses to offset the amounts payable to Firm and other mutual fund distributors. Additionally, SII retains all 12b-1 fees and shareholder servicing fees received under this Program, regardless of account type. SII uses this revenue to reduce the administrative fee assessed for this Program, as compared to other programs offered by SII. The administrative fee is deducted from the Management Fee you pay to participate in the Program prior to your Representative receiving their portion of the Management Fee. Please see Item 5 above for additional details regarding Platform Administrative Costs.

Because the Advisor Fund Solutions Program has a lower administrative fee (10 basis points maximum), your Representative may have an incentive to recommend this Program as compared to the Advisor Solutions Program (administrative fee of 20 basis points maximum), if the same Management Fee is offered for each program. Please also note that the universe of mutual funds offered under Advisor Fund Solutions has been narrowed to only include mutual funds that pay comparable 12b-1 and shareholder service fees. This results in a more limited selection of mutual funds available for this Program as compared to the other Programs. Your Representative can provide additional details regarding the specific impact of the administrative fee on your Management Fee, a comparison of internal mutual fund operating expenses and the available investment options under the Advisor Fund Solutions Program.

**Due Diligence Fees.** SII conducts an initial and ongoing due diligence review of the TPAMs selected for participation in our TPAM Program to ensure they satisfy our approval requirements. SII may collect a fee from TPAMs that participate in our TPAM Program in an effort to defray all or a portion of the costs we incur conducting these reviews. This fee is paid to SII regardless of whether or not we ultimately decide to approve a particular TPAM for inclusion in our TPAM Program. SII does not charge due diligence fees to TPAMs participating in its Premier TPAM Program (please see “Premier TPAM Program and Revenue Sharing” description immediately above), and we may also agree to waive due diligence fees for other TPAMs at our discretion.

**Program Compensation May Vary.** Compensation to SII, including your Representative and certain home office personnel, varies according to the advisory Program in which you participate. The compensation received by SII and these individuals for certain Programs may be more than what we would receive if you participated in another Program or paid for investment advice, brokerage or other services separately. This may provide a financial incentive to recommend a particular Program that pays us a higher amount of compensation than other Programs or services.

**Home Office Employee Incentives.** SII may provide performance-based compensation to certain of its home office employees related to their promotion of our WealthONE® Program which generally generates more revenue for SII as compared to other programs. These performance-based payments are provided in connection with their promotion and any resulting investment of client assets by our Representatives to our internal and proprietary WealthONE® Program.

These incentives create a conflict of interest for our home office employees in promoting internal programs that may result in your Representative having greater exposure to and marketing support related to our internal WealthONE® Program in comparison to other unaffiliated programs that may offer similar services.

**Investment Advisory Accounts vs. Brokerage Accounts.** You should also be aware of the differences between the fee-based services outlined in this Brochure for ongoing management of accounts and commission-based services that may be separately available for unmanaged brokerage accounts. To assist you with assessing these differences, we make available a document entitled “Which Account Type Is Right For You?” that we encourage you to review and discuss with your Representative. A copy of this document is contained on SII’s website at [www.siionline.com](http://www.siionline.com) under “Disclosures”, and is also available upon request from your Representative or SII.

**Special Treatment of Certain Qualified Account Types.** For certain qualified retirement account types, we may either (i) provide a client credit or refuse receipt of any direct or indirect compensation we may otherwise be entitled to receive as a result of a particular client’s purchase of investment products or services (including 12b-1 fees, shareholder servicing fees and revenue sharing payments from third parties); (ii) recommend or select investment share classes or products with lower fees or expenses that may not be made available to non-qualified accounts; or (iii) require that your Representative absorb trading or other charges on your behalf. Doing so may result in cost savings to these particular client accounts but does not obligate SII to make these same benefits available to other clients.

**Margin Commissions.** In limited situations, SII may permit clients to establish a margin account pursuant to an agreement entered with the custodian. “Margin lending” enables clients to borrow money to buy additional investments by using existing investments as security collateral. In these situations, SII may receive compensation from the custodian in the form of a margin commission that typically amounts to a percentage of the total margin interest charged to clients by the custodian. Clients should carefully read the margin disclosure statement provided by the custodian outlining risks related to margin prior to considering this type of arrangement.

**Pershing FundVest Program.** Representatives may initiate purchases of participating mutual funds through the Pershing FundVest Program, subject to minimum purchase amounts. Representatives may have an option to purchase certain of these fund shares without incurring any ticket charges, though this may result in a slightly higher mutual fund operating expense ratio. As such, Representatives who absorb client transaction charges may have an incentive to recommend those mutual funds that do not impose ticket charges over other available funds that may have a slightly lower operating expense.

**Competing Transactions.** SII, Representatives and our affiliates may have a conflict in our role as an investment advisor for other clients and our own accounts to the extent we may



initiate competing securities transactions for these clients or our accounts. The investment actions taken may also differ from the recommendations or selections we provide to you. We are not obligated to acquire for your account any investments that may be purchased on behalf of other clients or our own accounts, and you shall have no first refusal, co-investment, or other rights in any such investment. However, we strive to act in good faith and attempt to allocate investment opportunities to you over a period of time on a fair and reasonable basis relative to other clients and our own accounts, and based on your Investment Profile Information.

**Recruiting Incentives; Administrative Fee Discounting.** SII may offer certain of its Representatives recruiting and retention incentives to affiliate with SII in the form of a loan which is forgivable based on their achieving annual revenue targets over several year periods. This creates a conflict of interest since these Representatives may be incentivized to recommend or select investment products and services that may be more expensive than other available products and services, in an effort to achieve their revenue requirements. These incentives are customary in the industry and are offered in compliance with applicable securities laws, rules and regulations.

Additionally, SII may elect to discount the amount of the platform administration fee deducted from the Representative's Management Fee (See Item 5 "Platform Administrative Fees") based on the amount of assets under their management either in the aggregate or in relation to particular Programs, which also creates a conflict of interest since this discounting may result in an increased net Management Fee payable to the Representative for certain Programs they may recommend. Similar administrative discounting incentives may also be offered by certain TPAMs for clients who participate in our TPAM Program, together with various marketing or other practice management support and/or reimbursements, where such incentives are based on a Representative's total assets under management with a particular TPAM. Please consult your Representative or contact SII if you wish to confirm whether they may qualify for such an incentive.

**Payments to Solicitors.** SII may utilize the services of approved individuals who act as solicitors for purposes of referring clients to us in accordance with SEC regulations and applicable state securities law. These solicitors will generally be paid a portion of the ongoing investment advisory fee charged to the client by SII. Clients referred to SII by a solicitor will not be charged a referral fee and shall remain subject to the same advisory fee schedule as non-referred clients, as set forth above. These solicitation arrangements are required to be disclosed to clients at the time of the referral in a document outlining SII's solicitation compensation arrangement with the particular solicitor.

## **Item 15. Custody**

SII will arrange for you to receive account statements directly from the independent qualified custodian of your account assets. These are your official account statements for valuation, tax and all other purposes. We encourage you to please review the transactions, positions and valuations for accuracy, and to compare this information with any account statements or performance reports you may receive from SII or your Representative. The information contained in your official custodial account statements may vary slightly with that contained in other statements or performance reports you receive, due to differences in the computing method, timing of calculation, and source of valuations. Any concerns should be immediately

reported to the SII Compliance Department at (800) 426-5975. You may also contact the respective custodians directly with related questions at:

**Pershing LLC**  
One Pershing Plaza  
Jersey City, NJ 07399

**Charles Schwab & Co., Inc.**  
211 Main Street  
San Francisco, CA 94104

**TD Ameritrade Institutional**  
4075 Sorrento Valley Blvd.,  
Suite A  
San Diego, CA 92121

**Fidelity Investments**  
P.O. Box 77002  
Cincinnati, OH 45277-0090

**TIAA-CREF Individual &  
Institutional Services, LLC**  
730 3<sup>rd</sup> Avenue  
New York, NY 10017-3206

## **Item 16. Investment Discretion**

Clients have the option of providing SII with investment discretion on their behalf, pursuant to a grant of a limited power of attorney contained in our client agreement. By granting SII investment discretion, SII is authorized to execute securities transactions, which securities are bought and sold, the total amount to be bought and sold, and the costs at which the transactions will be effected. Limitations may be imposed by the client in the form of specific constraints on any of these areas of discretion with SII's written acknowledgment.

## **Item 17. Voting Client Securities**

When a client owns stock, they become a shareholder of that company that issues the stock. As a shareholder, clients may have the right to exercise a vote with respect to various corporate matters involving the management of the company in which they hold shares. Rather than doing so directly, clients may grant a "proxy" to enable another person or entity to vote on such matters on their behalf.

SII and its Representatives will not: (i) vote proxies related to any investments held in client accounts; or (ii) participate in any legal proceedings involving investments held in client accounts, or that involve the sponsors or issuers of any investments (including bankruptcy proceedings). Unless SII and the client make other written arrangements, SII will send all proxy and legal proceeding related documents it receives to the client so that the client may act upon the materials.

**For TPAM Program Accounts**, clients may have the ability to appoint the TPAM as their delegate to act on their behalf to vote proxies relating to any investments in their accounts. In these instances, SII will send all proxy and legal proceeding related information and documents it receives to the TPAM so that the TPAM may take whatever action it deems advisable.

## **Item 18. Financial Information**

Attached for your review is SII's balance sheet outlining its financial condition.

**SII INVESTMENTS, INC.**

(An Indirect, Wholly Owned Subsidiary of Prudential plc)

(SEC Identification No. 8-13963)

Statement of Financial Condition

December 31, 2015

(With Report of Independent Registered Public Accounting Firm Thereon)

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III

OMB APPROVAL	
OMB Number:	3235-0123
Expires:	March 31, 2016
Estimated average burden hours per response.. . . .	12.00

SEC FILE NUMBER
8- 13963

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING January 1, 2015 AND ENDING December 31, 2015  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: SII Investments, Inc.  
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

OFFICIAL USE ONLY
FIRM I.D. NO.

5555 Grande Market Drive

(No. and Street)

Appleton, WI 54913

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Vanessa Lambrechts 310-899-8672

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

KPMG, LLP

(Name - if individual, state last, first, middle name)

550 South Hope Street, Suite 1500, Los Angeles, CA 90071

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

- ☒ Certified Public Accountant  
☐ Public Accountant  
☐ Accountant not resident in United States or any of its possessions.

FOR OFFICIAL USE ONLY

\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

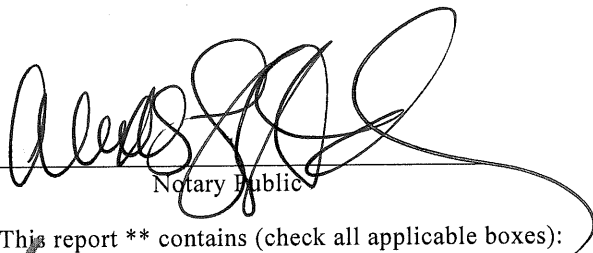
## OATH OR AFFIRMATION

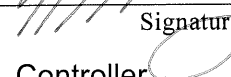
I, Vanessa Lambrechts, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of SII Investments, Inc., as of December 31, 2015, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

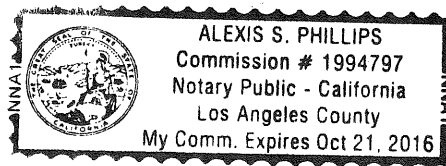
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Notary Public

  
Signature  
VP, Controller  
Title



This report \*\* contains (check all applicable boxes):

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☐ (c) Statement of Income (Loss).
- ☐ (d) Statement of Changes in Financial Condition.
- ☐ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☐ (g) Computation of Net Capital.
- ☐ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☐ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

**\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).**

**SII INVESTMENTS, INC.**  
(An Indirect, Wholly Owned Subsidiary of Prudential plc)

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**KPMG LLP**  
Suite 1500  
550 South Hope Street  
Los Angeles, CA 90071-2629

## **Report of Independent Registered Public Accounting Firm**

The Board of Directors  
SII Investments, Inc.:

We have audited the accompanying statement of financial condition of SII Investments, Inc. (an indirect, wholly owned subsidiary of Prudential plc) as of December 31, 2015 (the financial statement). The financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position of SII Investments, Inc. as of December 31, 2015, in conformity with U.S. generally accepted accounting principles.

**KPMG LLP**

Los Angeles, California  
February 26, 2016

**SII INVESTMENTS, INC.**  
(An Indirect, Wholly Owned Subsidiary of Prudential plc)

Statement of Financial Condition

December 31, 2015

**Assets**

Cash and cash equivalents	\$ 26,978,525
Restricted cash	8,492
Marketable securities	17,451
Commissions receivable	7,185,198
Clearing receivable	404,402
Investment advisory receivable	1,868,141
Forgivable notes receivable, net of accumulated amortization of \$6,484,841	4,990,118
Other receivables	786,688
Receivables from registered representatives, net of allowance of \$597,656	787,580
Due from affiliates	316,130
Income taxes receivable	816,996
Deferred tax assets	15,686,998
Fixed assets, net of accumulated depreciation of \$2,200,868	167,588
Prepaid expenses and other assets	672,283
Goodwill	7,658,095
	<hr/>
Total assets	\$ 68,344,685

**Liabilities and Stockholder's Equity**

Liabilities:	
Commissions payable	\$ 7,066,511
Investment advisory payable	1,762,144
Accounts payable and other accrued expenses	2,495,376
Due to affiliates	879,719
	<hr/>
Total liabilities	12,203,750
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Stockholder's equity	56,140,935
	<hr/>
Total liabilities and stockholder's equity	\$ 68,344,685

See accompanying notes to statement of financial condition.



**SII INVESTMENTS, INC.**  
(An Indirect, Wholly Owned Subsidiary of Prudential plc)

Notes to Statement of Financial Condition

December 31, 2015

**(1) Organization**

SII Investments, Inc. (the Company) is a wholly owned subsidiary of National Planning Holdings, Inc. (NPH), which in turn is an indirect, wholly owned subsidiary of Prudential plc, London, England. The Company is a registered broker-dealer and investment advisor with the Securities and Exchange Commission (SEC), an introducing broker with the Commodity Futures Trading Commission (CFTC), and a member of the Financial Industry Regulatory Authority and the National Futures Association. The Company offers financial products (primarily mutual funds and insurance products) through its registered representatives to customers located throughout the United States.

The Company has evaluated events occurring after the balance sheet date (subsequent events) through February 26, 2016, the date the statement of financial condition was available to be issued, to determine whether any subsequent events necessitated adjustment to or disclosure in the statement of financial condition. No such events were identified.

**(2) Significant Accounting Policies**

**(a) *Cash and Cash Equivalents***

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash equivalents include \$25,868,202 in money market accounts and \$210,335 in money market funds. Cash held in banks periodically exceeds the Federal Deposit Insurance Corporation's (FDIC) insurance coverage of \$250,000, and as a result, there is a concentration of credit risk related to amounts in excess of FDIC insurance coverage.

**(b) *Restricted Cash***

The Company is required by its regulators, including the SEC, to segregate cash to satisfy rules regarding the protection of customer assets. As of December 31, 2015, total cash of \$8,492 is segregated into a separate account for the exclusive benefit of customers.

**(c) *Marketable Securities***

Securities are carried at fair value based on quoted market prices and are recorded on a trade-date basis. Dividends are recorded on the ex-dividend date, and interest is recorded on the accrual basis.

**(d) *Drafts Payable***

Drafts payable represents amounts drawn by the Company pursuant to a sweep agreement with a bank. Under this agreement, the bank does not advance cash to the Company.

**(e) *Fixed Assets***

Fixed assets are carried at cost, less accumulated depreciation and amortization. Depreciation is computed on a straight-line basis using the estimated useful lives of the assets. Fixed assets consist primarily of equipment and computer hardware and software, which are depreciated over three to seven years. Leasehold improvements are depreciated over the shorter of the estimated useful life or the lease term.

**SII INVESTMENTS, INC.**  
(An Indirect, Wholly Owned Subsidiary of Prudential plc)

Notes to Statement of Financial Condition

December 31, 2015

**(f) Goodwill**

Goodwill represents the excess of the aggregate purchase price over the fair value of the net assets acquired in a purchase business combination. Goodwill is reviewed for impairment at least annually. In September 2011, the FASB issued ASU 2011-08, Testing Goodwill for Impairment, which provides an entity the option to perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount prior to performing the two-step goodwill impairment test. If this is the case, the two-step goodwill impairment test is required. If it is more likely than not that the fair value of a reporting unit is greater than its carrying amount, the two-step goodwill impairment test is not required. The Company adopted this guidance in 2012.

If the two-step goodwill impairment test is required, first, the fair value of the enterprise is compared with its carrying value (including goodwill). If the fair value of the enterprise is less than its carrying value, an indication of goodwill impairment exists and the enterprise must perform step two of the impairment test. Under step two, an impairment loss is recognized for any excess of the carrying amount of the enterprise's goodwill over the fair value of that goodwill. The fair value of goodwill is determined by allocating the fair value of the enterprise in a manner similar to a purchase price allocation. The residual fair value after this allocation is the implied fair value of the enterprise's goodwill.

For 2015, the Company performed a qualitative assessment of goodwill and determined that it is more likely than not that the fair value of the Company is greater than the carrying amount. Accordingly, no impairment was recorded in 2015.

**(g) Income Taxes**

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

The Company is included in a consolidated federal income tax return with Brooke (Holdco1), Inc. (BH1), an indirect, wholly owned subsidiary of Prudential plc. The Company's tax sharing agreement with BH1 is based on the separate return method and any intercompany income taxes are settled on an annual basis. The Company files combined state tax returns in approximately 25 states and separate state income tax returns for the other states in which the Company is required to file income tax returns.

**SII INVESTMENTS, INC.**  
(An Indirect, Wholly Owned Subsidiary of Prudential plc)

Notes to Statement of Financial Condition

December 31, 2015

**(h) *Receivable from Registered Representatives***

Receivable from registered representatives relates to outstanding balances from representatives and forgivable notes offered to registered representatives who have not achieved a predetermined percentage of the agreed-upon gross dealer concessions and must pay down a portion of the note. When it has been determined that a note will be repaid by a representative, the amount to be repaid is reclassified from forgivable notes receivable to receivable from registered representative. Upon reclassification, the receivable accrues interest at the stated rate of the note. The Company has not and does not intend to sell these receivables.

The allowance for doubtful accounts is the Company's best estimate of the amount of credit losses in the Company's existing receivable from registered representatives. The allowance is determined on an individual receivable basis upon review of the probability that a registered representative will not repay all principal and interest contractually due. A receivable is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due, including contractual interest payments. The Company does not accrue interest when a receivable is considered impaired. When ultimate collectability of the principal balance of the impaired receivable is in doubt, all cash receipts on impaired receivables are applied to reduce the principal amount of such receivables until principal has been recovered and are recognized as interest income thereafter. Impairment losses are charged against the allowance. Receivables are written off against the allowance when all possible means of collection have been exhausted and the potential for recovery is considered remote.

**(i) *Use of Estimates***

The preparation of the accompanying statement of financial condition in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions about future events. These estimates and the underlying assumptions affect the amounts of assets and liabilities reported, disclosures about contingent assets and liabilities, and the accompanying notes. These estimates and assumptions are based on management's best estimates and judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. Management adjusts such estimates and assumptions when facts and circumstances dictate.

**(j) *Fair Value Measurements***

The financial instruments of the Company are reported in the statement of financial condition at fair values. The Company has determined the fair value of money market funds and marketable securities using the market approach as these financial instruments trade in an active market. Cash and cash equivalents, restricted cash, commissions receivable, investment advisory receivable, receivable from registered representatives, commissions payable, and investment advisory payable are reported at carrying amounts which approximates their fair value due to the short-term nature of the instruments.

**SII INVESTMENTS, INC.**  
(An Indirect, Wholly Owned Subsidiary of Prudential plc)

Notes to Statement of Financial Condition

December 31, 2015

**(3) Income Taxes**

The tax effects of temporary differences that give rise to significant portions of the Company's deferred income tax assets and liabilities are as follows:

Deferred tax assets:	
Forgivable loans	\$ 1,432,541
Allowance for doubtful accounts	227,982
Depreciation	71,374
Deferred compensation	13,822,971
Accrued vacation	67,794
Accrued rent	10,424
Accrued bonus	74,540
Commission held	4,046
Other	59,956
	<hr/>
Total deferred tax assets	15,771,628
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Deferred tax liabilities:	
Prepays	(79,055)
Unrealized gain on marketable securities	(5,575)
	<hr/>
Total deferred tax liabilities	(84,630)
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Net deferred tax assets	\$ 15,686,998
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In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Based upon the projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences.

To date, the Company has generated a Michigan net operating loss of \$35,562. A valuation allowance has been placed against the state net operating loss deferred asset as of December 31, 2015 due to the uncertainty of its ultimate realization.

The Company has a state tax receivable of \$176,546 and a federal income tax receivable of \$640,450. As of December 31, 2015, there are no unrecognized tax benefits.

The federal income tax returns for 2012, 2013, and 2014 remain open to examination. The Company files income tax returns in all states. The Massachusetts income tax returns for tax years 2011 through 2013 are under examination by the Massachusetts Department of Revenue. The state income tax returns for 2012, 2013 and 2014 remain open to examination. The Company does not believe it is probable that a significant change will occur within the coming year to its unrecognized tax benefits.

**SII INVESTMENTS, INC.**  
(An Indirect, Wholly Owned Subsidiary of Prudential plc)

Notes to Statement of Financial Condition

December 31, 2015

**(4) Fair Value Measurements**

The Company's assets recorded at fair value have been categorized based upon a fair value hierarchy in accordance with ASC 820-10, *Fair Value Measurement*. Fair value is defined as the price that would be received to sell an asset or would be paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date.

ASC 820-10 established a three-level hierarchy for fair value measurements that distinguishes between market participant assumptions developed based on market data obtained from sources independent of the reporting entity (observable inputs) and the reporting entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The hierarchy level assigned to each security held by the Company is based on the assessment of the transparency and reliability of the inputs used in the valuation of such security at the measurement date. The three hierarchy levels are defined as follows:

- Level 1 – Valuations based on unadjusted quoted market prices in active markets for identical securities
- Level 2 – Valuations based on observable inputs (other than Level 1 prices), such as quoted prices for similar assets at the measurement date; quoted prices in markets that are not active; or other inputs that are observable, either directly or indirectly
- Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement, and involve management judgment

The Company has evaluated its investments in money market funds and marketable securities and determined that based on the unadjusted quoted market prices in active markets used to determine fair value that these are classified as Level 1 investments. All other financial instruments are classified as Level 2 investments.

**(5) Clearing Agreement**

The Company is an introducing broker and clears transactions with and for customers on a fully disclosed basis with Pershing LLC, a Bank of New York Mellon company. The Company promptly transmits all customer funds and securities to Pershing LLC. In connection with this arrangement, the Company is contingently liable for its customers' transactions.

**(6) Net Capital Requirements**

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule 15c3-1 (Rule 15c3-1) and is required to maintain a minimum "net capital" equivalent of \$250,000, or 2%, of "aggregate debit items," whichever is greater, as these terms are defined. The Company is also subject to the Commodity Futures Trading Commission's minimum financial requirements (Regulation 1.17), which requires the Company to maintain minimum net capital equal to the minimum net capital required under Rule 15c3-1. As of December 31, 2015, the Company had net capital of \$23,480,190, which was \$23,230,190 in excess of its requirement.

**SII INVESTMENTS, INC.**  
(An Indirect, Wholly Owned Subsidiary of Prudential plc)

Notes to Statement of Financial Condition

December 31, 2015

**(7) Forgivable Notes Receivable**

The Company holds forgivable notes from certain registered representatives. Under the terms of the forgivable notes, the principal is forgiven over a period of time, generally five to seven years. The forgiveness of the notes is contingent upon the continued affiliation of the representative and the representative achieving agreed-upon production levels, measured in terms of gross dealer concessions.

The Company records amortization of the principal balance of the notes monthly on a straight-line basis over the term of the note. Typically, when the representative does not achieve the minimum gross dealer concessions, but does achieve a predetermined percentage of the agreed-upon production levels, the term of the forgivable note may be extended. Under such circumstances, the unamortized balance of the note is amortized over the remaining term. However, if the representative achieves an amount lower than the predetermined percentage of the agreed-upon production levels, the note is amended, the representative must pay down a portion of the note, and the remaining balance is amortized over the remaining term. When it has been determined that a note will be repaid by a representative, the amount to be repaid is reclassified from forgivable notes receivable to receivable from registered representatives.

During 2015, forgivable notes receivable totaling \$2,214,817 became fully amortized and were forgiven by the Company.

**(8) Receivables from Registered Representatives and Allowance for Doubtful Accounts**

Receivables from registered representatives with interest rates ranging from 4.25% to 5.25%. The receivables mature from January 20, 2016 through November 20, 2017	\$ 399,287
Other receivables from registered representatives	<u>388,293</u>
Receivables from registered representatives, net	<u><u>\$ 787,580</u></u>

**(9) Fixed Assets**

The major classifications of fixed assets are as follows:

Leasehold improvements	\$ 571,485
Office equipment, furniture, and fixtures	893,102
Computer hardware and software	<u>903,869</u>
Total fixed assets	2,368,456
Less accumulated depreciation	<u>(2,200,868)</u>
Fixed assets, net	<u><u>\$ 167,588</u></u>

**SII INVESTMENTS, INC.**  
(An Indirect, Wholly Owned Subsidiary of Prudential plc)

Notes to Statement of Financial Condition

December 31, 2015

**(10) Defined Contribution Plans**

The Company participates with Jackson National Life Insurance Company (Jackson) (which is also an indirect, wholly owned subsidiary of Prudential plc) in a defined contribution retirement plan covering all eligible full-time employees. The Company's annual contributions are based on a percentage of covered compensation paid to participating employees during each year.

**(11) Related-Party Transactions**

Jackson, an affiliate of NPH, allocates a portion of its leased office space to the Company based on the proportionate share that the Company utilizes for operations. The Company has committed to pay Jackson based on its proportionate share of leased office space through the term of Jackson's lease, and its current commitments are \$643,775 in 2016 and \$268,240 in 2017.

The Company participates in the allocation of costs in which NPH and the other wholly owned subsidiaries of NPH allocate a portion of their operating expenses to the Company, and the Company allocates a portion of its operating expenses to the other subsidiaries of NPH.

Pursuant to the tax sharing agreement, the Company paid \$2,976,500 for federal income taxes for the year ended December 31, 2015.

**(12) Representative Deferred Compensation Program**

The Company participates in a Jackson nonqualified deferred compensation plan for certain registered representatives of the Company. The Company's annual contributions are based on commission revenue production of participating registered representatives during the year. The Company has transferred title and ownership of all amounts credited to each participant's account and all underlying funds to Jackson for the purpose of facilitating administration of the plan.

**(13) Contingencies**

The Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's financial position, results of operations, or liquidity.