

**Part 2A of Form ADV: *Investment Adviser Brochure***



**POPULAR SECURITIES®**

**Investment Adviser**

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**This brochure provides information about the qualifications and business practices of the investment adviser, Popular Securities, LLC. If you have any questions about the contents of this brochure, please contact us at (787) 758-7400 or [popular\\_securities@popular.com](mailto:popular_securities@popular.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority. Registration does not imply a certain level of skill or training.**

**Additional information about Popular Securities, LLC is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by a unique identifying number, known as a CRD number. The CRD number for Popular Securities, LLC is 8096. Registration as an investment adviser does not imply any level of skill or training.**

## **Item 2.      Material Changes**

No material changes reported for this period.

### Item 3. Table of Contents

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## **Item 4. Advisory Business**

Popular Securities, LLC (hereinafter “Popular Securities” or “firm” or “we”) is an SEC-registered investment adviser with its principal place of business located in Puerto Rico. Popular Securities began conducting its investment advisory business in 2001. Popular Securities is also a FINRA-member broker/dealer that has been in business since 1997.

Listed below are the firm's principal shareholders (i.e., those individuals and/or entities controlling 25% or more of this company).

- Popular Inc., Holding Company

Popular Inc. is a public company. There are no indirect owners that own 25% or more of Popular Securities.

Of Popular Securities’ \$3.9 billion assets under management, as of December 2015, we were managing \$824.4 million of clients’ assets on a non-discretionary basis. Popular Securities does not exercise discretion over these funds but in certain cases there may be a manager or sub-advisor that may have discretion.

The firm offers investment management services to its clients through National Financial Services Managed Account Solutions (“MAS”) Program (the “Program”). The Program offers comprehensive investment advisory programs with sophisticated advisory solutions with a wide variety of advisory options, including:

- Reporting Only Accounts
- Unified Managed Accounts
- Fund Strategists Programs
- Separate Accounts Programs
- Model Management Programs
- Advisor Models or Representative as Portfolio Manager (“Rep as PM”)

Investment advisory and platform management services available through National Financial Services MAS are provided by Envestnet Asset Management, Inc., a third-party registered investment adviser, independent of Popular Securities.

At least annually, we meet with the client to review and update, as necessary, the client's personal investment profile. However, should there be any material change in the client's personal and/or financial situation, we should be notified immediately to determine whether any review and/or revision of the client's personal investment profile is warranted.

Clients will receive a separate disclosure document (Form ADV Part 2) prepared by Envestnet describing in detail the services offered within the Program. Clients are encouraged to review the disclosure document learn more about the particular characteristics of each of the services offered within the Program.

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

### **Advisory Fees**

Popular Securities' annual advisory fee for services it provides to clients in the Program has a cap of 2.50% of the total client assets invested in the Program. Popular Securities' fee is negotiated with the client on a case by case basis. Client facts, circumstances and needs determine Popular Securities' fee. These include the Program service(s) selected by the client, the complexity of the client's circumstances, and the amount of client assets in the Program. The exact fee received by Popular Securities for its services will be disclosed in the investment management agreement with the client.

Popular Securities' advisory fees are charged on a calendar quarter basis in advance, based on the value (market value or fair market value in the absence of market value) of the account at the end of the quarter and prorated to the end of the quarter upon inception of the account. Fees will be debited from the account in accordance with client's initial authorization.

Clients will receive a separate disclosure document (Form ADV Part 2) prepared by Investnet describing the specific fees charged within the Program, the minimum account requirements, billing arrangements and service termination provisions. Clients are encouraged to review this disclosure document regarding the particular characteristics of the fees charged within the Program.

### **Other Fees and Expenses**

***Mutual Fund Fees:*** All fees paid to Popular Securities for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds and Exchange Traded Funds to their shareholders. In the case of mutual funds, these fees and expenses are described in each fund's prospectus. These fees will generally include a management fee, other fund expenses, and possibly a distribution fee (paid to financial advisors). For qualified retirement plan accounts Popular Securities does not allow distribution fees when there is an advisory fee. With Russell Investments we have a revenue-sharing agreement. We have a referral agreement with Russell Investments for certain institutional/ large clients where we receive a referral fee for the duration of the engagement (while Russell Investment is the consultant). Accordingly, the client should review both the fees charged by the funds and Popular Securities to fully understand the total amount of fees to be paid by the client and to thereby evaluate the advisory services being provided.

### **Fees in General**

Popular Securities' Fee may be negotiable based upon certain criteria (i.e. anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, negotiations with client, etc.). Clients should note that similar advisory services may or may not be available from other registered investment advisers for similar or different fees.

## **Account Termination**

A client agreement may be canceled by either party at any time, for any reason, upon receipt of 30 days prior written notice. Clients will receive a prorated refund of any pre-paid advisory fees based upon the number of days remaining in the quarter after the termination date.

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

We do not charge performance-based fees (i.e., fees based on a share of capital gains on or capital appreciation of the assets of a client) nor engage in side-by-side management.

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

Popular Securities provides its advisory services to individuals, high net worth individuals, pension and profit sharing plans, trusts, estates, charitable organizations, non-for profit organizations, government organizations and corporations.

Popular Securities' minimum initial account size requirement is \$25,000 for certain products, many products may have a higher minimum requirement. The minimum account size requirement may be negotiable, but a lower than required minimum size may result in higher fees.

Clients will receive a separate disclosure document (Form ADV Part 2) prepared by Investnet describing account minimums and any other requirements for opening an account within the Program. Clients are encouraged to review this disclosure document to learn more about these account requirements.

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

Popular Securities may use a variety of investment strategies and analytical methods in formulating its investment advice. The strategies and analysis methods used will depend on the specific situation being evaluated, but in general will be based on the client's goals, risk tolerance, needs and current holdings, amongst others. These will be used to determine an asset allocation and suitable investment vehicles as well as to monitor and suggest on-going monitoring and recommendations. Analysis may include but are not necessarily limited to several quantitative techniques and qualitative evaluations. Popular Securities can also use one or more third-party services for manager/fund research and due-diligence, and Popular Securities may also conduct its own research and due-diligence for certain strategies, managers and funds.

## **Third-Party Active Manager Analysis**

Portfolio Management Consultants ("PMC") is Investnet's consulting group. The PMC manager approval process uses an objective, transparent methodology consistent with industry standards to provide a broad universe of investment managers across investment

styles that offer an attractive risk/reward proposition. PMC also conducts and provides qualitative research for a select group of their high conviction managers and funds.

The process consists of the following steps:

- A manager must successfully complete Envestnet's Annual Compliance Due Diligence Questionnaire.
- PMC's quantitative risk/return model is used to select managers that rank in the top 40% of their overall peer group based on three years of historical performance data
- PMC research analysts also work to provide additional insight across the approved universe by strategically performing additional analytics, including:
  - a) Manager's interviews to gain a clearer understanding of the investment process
  - b) Holdings-based analysis using a factor model to calculate performance attribution
  - c) Finding statistically significant alpha scores using a custom Returns-Based Style Analysis (RBSA) process.

As part of PMC's continual efforts to improve, they may periodically refine their processes.

A risk of investing with a third-party manager who has been successful in the past is that he/she may not be able to replicate that success in the future. In addition, as PMC does not control the underlying investments in a third-party manager's portfolio, there is also a risk that a manager may deviate from the stated investment mandate or strategy of the portfolio, making it a less suitable investment for clients. Moreover, like PMC, we do not control the manager's daily business and compliance operations; as a result it is possible for managers to conceal weak internal controls which enforcement is necessary to prevent business, regulatory or reputational deficiencies.

Popular Securities can also use one or more third-party services for manager/fund research and due-diligence, and Popular Securities may also conduct its own research and due-diligence for certain strategies, managers and funds.

Clients should understand that investing in any securities involves a risk of loss of both income and principal and that diversification of client's portfolio does not ensure a profit or guarantee against a loss.

## **Item 9. Disciplinary Information**

Popular Securities is required to disclose any legal or disciplinary events that are material to a client's or prospective client's evaluation of our advisory business or the integrity of our management. Our firm has the following disciplinary events to disclose:

- In the year 2005, Popular Securities was fined by the NASD due to failure to comply with MSRB Rules G-14 and G-27. Specifically the firm had failed to timely report its municipal securities inter-dealer transactions to the MSRB. The allegations presented were operational in nature and no clients were affected by this reporting

issue. The Firm accepted a censure and paid a monetary fine of \$40,000 without admitting or denying the allegations.

- In the year 2007, FINRA found that Popular Securities had failed to timely pay municipal securities transaction fees and municipal securities underwriting fees to the MSRB. Clients were not impacted by this reporting issue. The Firm accepted a censure and paid a monetary fine of \$5,000 without admitting or denying the allegations.
- On December 11, 2014, the Firm executed a Letter of Acceptance, Waiver and Consent ("AWC") pursuant to which FINRA agreed to accept a settlement to conclude its examination of the Firm. Under the terms of the AWC, the Firm (1) accepted that the Firm's written supervisory procedures ("WSPs") for the period beginning on July 1, 2011 and ending on June 30, 2013 did not outline the steps that the Firm should have taken to review its customers' securities purchases in Puerto Rico securities for concentration, and that, apart from a procedure that required quarterly reviews of "elderly" customer accounts for concentration of one product in client's account, the Firm did not establish, maintain, or enforce any systems or procedures that required supervisors to review for concentrated purchases in Puerto Rico securities or document such reviews; and (2) agreed to a censure and a fine of \$125,000. The Firm has accepted the above referenced finding without admitting or denying the same.

The management personnel of Popular Securities do not have any disciplinary events to disclose.

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

Popular Securities is also a FINRA-member broker/dealer. Many of our management persons and other employees are also broker/dealer registered representatives and offer brokerage services to various types of clients. Some of these brokerage clients may also become advisory clients. Further, our management persons and registered representatives may recommend these brokerage services to advisory clients for which they will receive separate and customary compensation. However, neither Popular Securities nor its management persons and/or registered representatives will receive commissions from the sale of securities during the provision of the advisory services described above at Item 4. The sole compensation earned by Popular Securities and its management persons and/or registered representatives from the provision of advisory services is disclosed above in Item 5.

Popular Securities is also a wholly owned subsidiary of Popular Inc., a bank holding company. As a subsidiary of Popular Inc. our firm is under common ownership and control with several financial institutions, including the following with which we have a material business relationship (referred to collectively as the "Related Companies"):

- Banco Popular of Puerto Rico (BPPR): a national commercial bank that offers a broad spectrum of banking products and financial services to consumers, small businesses and commercial clients;



- Banco Popular North America: a banking institution offering services in the US;
- Popular Mortgage: a licensed mortgage institution;
- Popular Auto: engaged in leasing, auto loan and daily rentals;
- Popular Insurance: a license insurance agency;

Popular Asset Management, the Investment Management Division of Banco Popular provides investment advice to several opened and closed end mutual funds sponsored, in some cases, by UBS Financial Services and Banco Popular of Puerto Rico. These funds are registered under the Puerto Rico Investment Company Act. Popular Securities is a distributor of these mutual funds and receives compensation as part of an on-going 12(b)1 distribution fees.

Where appropriate, Popular Securities and its employees may recommend the various investments, including the mutual funds sponsored by Banco Popular of Puerto Rico, and the investment-related services of the Related Companies to our advisory clients. The Related Companies and their employees may also recommend the advisory services of our firm to their clients. The services provided by the Related Companies are separate and distinct from our advisory services, and are provided for separate and additional compensation. There may also be arrangements between Popular Securities and these Related Companies where Popular Securities and/or the Related Companies and their employees receive payment in exchange for client referrals. No Popular Securities' client is obligated to use the services of any of the Related Companies.

In addition to Popular Securities branch locations and Banco Popular of Puerto Rico branch office sites, the services of Popular Securities are being offered through office centers under the name of Popular One. Popular One office center is a place where customers can obtain integrated service offered by the Related Companies. Specialists from Popular Securities, Popular Insurance, Fiduciary Service Division and the Wealth Management Divisions of Banco Popular of Puerto Rico are located in each of these centers to provide as a team integrated services of these Related Companies.

Registered representatives of Popular Securities may also be insurance agents for one or more insurance companies. In their separate capacities as insurance agents, the registered representative are able to purchase insurance and insurance-related investment products for Popular Securities' advisory clients, for which they will receive separate and additional compensation. Clients, however, are not under any obligation to engage them when considering the purchase/sale of insurance products. Related persons of our firm may spend as much as 60% of their time on these related activities.

Wealth Advisors and other BPPR employees with appropriate securities registrations may become investment advisor representatives in certain accounts for which they also provide financial planning and/or other services for which they are compensated and this may result in a conflict of interests.

Popular Securities offers proprietary products of our affiliate Popular Asset Management individually and as part of third party fund models, which can represent a conflict of interest.

Our investment advisor representatives are sometimes invited to due-diligence trips to managers' offices or other places based on assets levels of production with those managers and some other events may be paid by managers. In such cases this may present a conflict of interest as the Investment Advisor Representative may be inclined to offer such products.

Also our investment advisor representatives and management may have incentives to increase assets under advice and fees, as bonuses and other forms of recognition are tied to this.

Clients should be aware that the receipt of additional compensation by Popular Securities and its management persons or employees creates a conflict of interest that may impair the objectivity of our firm and these individuals when making advisory recommendations. Popular Securities endeavors at all times to put the interest of its clients first. We take the following steps to address this conflict:

- we disclose to clients the existence of all material conflicts of interest, including the potential for our firm and our employees to earn compensation from advisory clients in addition to our firm's advisory fees;
- we disclose to clients that they are not obligated to purchase recommended investment products from our employees or affiliated companies;
- we collect, maintain and document accurate, complete and relevant client background information, including the client's financial goals, objectives and risk tolerance;
- our firm's management conducts regular reviews of each client account to verify that all recommendations made to a client are suitable to the client's needs and circumstances;
- we require that our employees inform us of any outside employment activity so that we may ensure that any conflicts of interests in such activities are properly addressed;
- we periodically monitor these outside employment activities to verify that any conflicts of interest continue to be properly addressed by our firm; and
- we educate our employees regarding the responsibilities of a fiduciary, including the need for having a reasonable and independent basis for the investment advice provided to clients.

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

Popular Securities has adopted a written Code of Ethics which sets forth high ethical standards of business conduct and requires supervised persons to comply with applicable federal securities laws. Popular Securities and our personnel owe a duty of loyalty, fairness and good faith toward our clients, and have an obligation to adhere not only to the specific provisions of the Code of Ethics but to the general principles that guide the Code.

Our Code of Ethics includes policies and procedures for the review of quarterly securities transactions reports as well as initial securities holdings reports and quarterly transaction reports that must be submitted by the firm's access persons. Among other things, our Code of Ethics also requires the prior approval of any acquisition of securities in a limited offering (e.g., private placement). Our code also provides for oversight, enforcement and recordkeeping provisions.

Our Code of Ethics further includes the firm's policy prohibiting the use of material non-public information. While we do not believe that we have any particular access to non-public information, all employees are reminded that such information may not be used in a personal or professional capacity.

A copy of our Code of Ethics is available to our advisory clients and prospective clients. You may request a copy by email sent to [popular\\_securities@popular.com](mailto:popular_securities@popular.com) or by calling us at (787) 758-7400.

## **Item 12. Review of Accounts**

### **Reviews**

Clients should refer to Envestnet's disclosure document for the Program (Form ADV Part 2) for information regarding the nature and frequency of reviews provided by Envestnet and/or the applicable Sub-Managers.

Popular Securities will provide reviews of a client account(s) with Envestnet and out-of-platform managers on at least an annual basis. Accounts are reviewed in the context of each client's stated investment objectives and guidelines. More frequent reviews may be triggered by material changes in variables such as the client's individual circumstances, or the market, political or economic environment.

### **Reports**

Clients should refer to Envestnet's disclosure document for the Program (Form ADV Part 2) for information regarding the nature and frequency of reports provided by the Program.

Popular Securities does not typically provide reports in addition to those provided by MAS.

## **Item 13. Client Referrals and Other Compensation**

It is Popular Securities' policy not to accept or allow our related persons to accept any form of compensation, including cash, sales awards or other prizes, from a non-client in conjunction with the advisory services we provide to our clients.

Popular Securities' employees are not allowed to give or receive gifts or gratuities to or from clients in excess of \$100 per client per year. This, however, does not prohibit

occasional gifts or gratuities related to normal business dealings as long as the limit of \$100 is not exceeded.

It is our policy not to engage solicitors or to pay any non-related persons for referring potential clients to our firm. However, we do have a referral arrangement with our affiliate, Banco Popular, whereby we pay Banco Popular a nominal referral fee for each client or potential client referred to us. All prospective clients receive a separate disclosure statement that includes the fact that Banco Popular is being paid a referral fee. As a matter of firm practice, the advisory fees paid to us by clients referred by Banco Popular are not increased as a result of any referral.

#### **Item 14. Custody**

We previously disclosed in the Fees and Compensation section (Item 5) of this brochure that our firm's custodian directly debits advisory fees from client accounts. As part of this billing process, the client's custodian is advised of the amount of the fee to be deducted from that client's account. On at least a quarterly basis, the custodian is required to send to the client a statement showing all transactions within the account during the reporting period.

At this time Popular Securities calculates and causes NFS to deduct fees for certain managed accounts with custody at NFS but not managed through MAS.

Because the custodian does not calculate the amount of the fee to be deducted, it is important for clients to carefully review their custodial statements to verify the accuracy of the calculation, among other things. Clients should contact us directly if they have any questions regarding their advisory fees in their statement.

#### **Item 15. Investment Discretion**

Our firm does not provide discretionary asset management services. However, Envestnet typically requires clients to provide discretionary authorization to them and/or the Sub-Managers. Clients should refer to Envestnet's disclosure document for the Program (Form ADV Part 2) for information regarding the discretionary authority requested by Envestnet and/or the Sub-Managers in the Program.

#### **Item 16. Voting Client Securities**

Popular Securities does not vote client proxies and does not typically provide advice to clients regarding the clients' voting of proxies. Clients should refer to Envestnet's disclosure document for the Program (Form ADV Part 2) for information regarding the proxy voting policy of Envestnet and/or the Sub-Managers in the Program.

## **Item 17. Financial Information**

Popular Securities has not been the subject of a bankruptcy petition at any time in its existence.

Under no circumstances will we earn fees in excess of \$1,200 more than six months in advance of services rendered. Therefore, we are not required to include a financial statement.