



**Hilltop Securities Independent Network Inc.**  
**Client Disclosure Brochure**  
*Part 2A Appendix 1 of Form ADV: Wrap Fee Program Brochure*

Hilltop Securities Independent Network Inc.  
Attn. Investment Management Group  
1201 Elm Street, Suite 3500  
Dallas, TX 75270-2180  
214-859-6735

Revised March 31, 2020

This Client Disclosure Brochure provides information about the qualifications and business practices of Hilltop Securities Independent Network Inc. and our Managed Account Programs. This information should be considered before becoming a client of one of these programs.

This Form ADV Disclosure Brochure applies to all of your wrap fee program advisory accounts at Hilltop Securities Independent Network Inc. and our Advisory Services Group(ASG) including any advisory accounts you may open in the future. We may not provide another copy of the Form ADV Disclosure Brochure when you establish new advisory accounts unless there are material changes to the document we originally provided to you. Annually we will provide you with a copy of our updated Form ADV Disclosure Brochure or a summary of material changes from the brochure previously provided to you.

Please retain all these documents for future reference as they contain important information if you decide to add services or open new advisory accounts with our Firm.

This information should be considered before becoming a Client. If you have any questions about the contents of this Disclosure Brochure, please contact us at 214-859-6735 or [FormADV2@hilltopsecurities.com](mailto:FormADV2@hilltopsecurities.com) or by contacting your Investment Adviser Representative.

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

# Summary of Material Changes

*Updated March 31, 2020*

This Brochure has been updated with the following material Changes that have occurred since the last Client Disclosure Brochure update on March 29, 2019.

Effective July 1, 2020. For all Programs: If you make any single deposit or any single withdrawal of \$10,000 or more of cash and/or securities, you will be debited or credited a pro-rated fee on the market value of the assets. The pro-rated amount will be due as of the date you deposit the additional assets into your account or you will receive a pro-rated adjustment or refund of any prepaid fee as of the date of withdrawal.

*This is a change from the previous amount of \$30,000 for the Partner, Advantage and Direct Access Programs.*

This Brochure has been updated with the following material Changes to the Disciplinary Disclosures section that have occurred since the last Client Disclosure Brochure update in March 31, 2020.

In September 2019, Hilltop Securities (HTS) and Hilltop Securities Independent Network (HTIN), jointly and severally, paid disgorgement of \$736,497.48 and prejudgment interest of \$74,287.92 for a total of \$810,785.40. The U.S. Securities and Exchange Commission (SEC) brought numerous actions against investment advisers over the past several years that failed to make required disclosures or the disclosures made were not written in a clear enough manner, related to its selection of mutual fund share classes that paid certain fees, known as 12b-1 fees, to representatives when a lower cost share class was available for the same fund that did not make those payments. 12b-1 fees are sometimes also described as distribution and marketing fees, and are generally paid to brokerage firms for distribution and shareholder services. As a result of these actions and related findings, the SEC implemented the Share Class Selection Disclosure initiative to allow firms to self-report circumstances in which the disclosures do not meet the SEC's requirements.

After conducting a review of its advisory business, HTS addressed this issue in January 2018 by enhancing its investment advisory programs to rebate to customers any 12b-1 fees paid by mutual funds held in managed accounts and by making disclosures regarding the 12b-1 payments.

Although HTS did make disclosures regarding mutual fund 12b-1 payments, without admitting or denying the findings in the order, the SEC has indicated that the disclosures were not clear enough for investors to make an informed decision regarding offered advisory services and payments.

As a result of the SEC's decision regarding these fees and disclosures, without admitting or denying the findings, HTS accepted an offer from the SEC to settle this matter and agreed to the entry of an order which included HTS to return certain 12b-1 fees and interest charged to investors in managed accounts from January 2014 through January 2018.

In agreeing to participate in this initiative, HTS will not be subject to a regulatory fine by the SEC.

## **Related Items:**

<https://www.sec.gov/litigation/admin/2019/ia-5393.pdf>

In September 2019, affiliate broker-dealer Hilltop Securities Inc. (HTS), reached a settlement with FINRA for failing to establish procedures to ensure that customers received in writing the initial disclosure stating the annual rate or rates of margin interest that could be imposed prior to opening their margin account and failed to establish, maintain, and enforce a supervisory system designed to achieve compliance with Rule 10b-16(a)(1). As a result, Hilltop violated SEC Rule 10b-16(a)(1) and FINRA Rules 3110(a) and (b) and 2010. The firm agreed to a censure, and a \$250,000 fine.

In April 2019, affiliate broker-dealer Hilltop Securities Inc. (HTS) reached a settlement with the CBOE/BZX exchange for failing to report reportable positions in expiring options, mistakenly deleting the positions in its large option position reporting system submissions that were set to expire on the following day or failing to report positions that the firm had added or modified on the expiration date. The firm agreed to a censure, and a \$37,500 fine.

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

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## **Advisory Business**

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

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

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

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

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

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

As of December 31, 2019, HTIN has \$548,771,349 assets under management, \$53,046,353 on a discretionary basis and \$495,724,996 on a non-discretionary basis.

## **Services, Fees and Compensation**

HTIN makes a number of Programs available. The accounts managed by HTIN are generally not intended to provide you with a complete investment program, and HTIN expects that the assets it manages does not represent all of your assets. The service begins with a consultation between you and your IAR to review your investment objectives, financial circumstances and risk tolerance. You will complete a Risk Tolerance Questionnaire (RTQ) to document the results of this assessment. After reviewing the results of the RTQ, your IAR will recommend a specific advisory program. The program you select seeks to appropriately balance your financial objectives with your risk tolerance as part of an investment strategy. You agree to immediately notify your IAR of any changes in your financial situation or risk objectives. You should be aware that fees charged for these Programs may be higher or lower than those otherwise available if you were to select separate brokerage services and negotiate commission in the absence of the extra advisory services available.

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

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

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

## **Advisory Accounts available with Envestnet Asset Management, Inc.**

HTIN Advisory Programs and services are available with Envestnet Asset Management, Inc. (“Envestnet”), a non-affiliate investment adviser registered under the Investment Advisers Act, through its web-based platform. These services in part or whole apply to Sponsors “Partner”, Premier Advisors SMA/UMA and Direct Access – Fund Strategist Portfolio (“FSP’s”) programs. The services from Envestnet may include:

- Providing access to a variety of SMA, UMA and FSP strategies available for HTIN programs
- Portfolio trading as directed by Envestnet and or Envestnet Manager
- Providing billing for all HTIN advisory accounts
- Providing account reporting including but not limited to Performance, Realized/Unrealized Gains and Losses, Account Holdings etc.
- Account Rebalancing
- Accepting and acting on reasonable account restrictions

Additional services may be provided based on the Program selected. Fees and additional services for each Program are listed below:

### **Partner – Adviser as Portfolio Manager (APM)**

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

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

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

### **Unsolicited Transactions**

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

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

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

- as part of your overall account assets,
- when we give you periodic asset allocation advice,
- when we value your account holdings,
- when we provide you with analyses and reports on your account’s performance, and
- we may also make recommendations that you consider selling the asset, if and when we deem it appropriate.

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

### **Cash and Securities Concentrations**

Advisory Programs are not appropriate for clients who want to maintain a high level of cash and/or highly concentrated positions that will not be sold regardless of market conditions. If you continue to hold high level of cash and/or highly concentrated positions then you do so against our recommendation and with the understanding that the value of those securities will be included for the purposes of calculating the Program fee, resulting in a higher fee to us. Please note that you may hold excess cash or concentrated position in a

brokerage account without incurring the Advisory Program Fee. If your account continues to be outside of the cash and concentration guidelines over a specified period of time then your account will be removed from the Program.

## **Advantage**

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

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

If you invest assets through the Program, please note that you must carefully monitor your contributions to prevent them from inadvertently exceeding federal limits on your annual contribution for qualified accounts.

Unless directed otherwise by you, the Client, program assets will be rebalanced as explained below:

**The Rebalancing Process:** HTS shall periodically monitor the account and, unless you elected otherwise, HTS shall rebalance assets in the account on an as needed basis to maintain your target asset allocation among the Mutual Funds and/or ETFs. Portfolios are reviewed periodically to identify any allocation deviations that may trigger a further review of the individual portfolio. The review may or may not result in an immediate rebalance of the portfolio. Your affirmative consent is not required to implement these changes. Rebalancing will be accomplished by selling the shares of the over-weighted fund(s) and purchasing a corresponding dollar amount of the appropriate underweighted fund(s), providing that the sale and the purchase are each in an amount over \$25 or an amount as determined by the HTS. HTS reserves the right to change the rebalancing percentage measure or the minimum dollar amount of individual rebalancing transactions. You may elect to decline rebalancing of the account. If you decline rebalancing, your asset allocations may deviate from your initial allocations and from the risk/return objectives stated in your Client Profile. It is recommended that you and your IAR create your own rebalance methodology.

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

## **Employee Benefit Plan or IRA Accounts**

The following provisions apply to an employee benefit plan or account subject to the Title I Part 4 of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”) and a plan or account subject to Section 4975 of the Internal Revenue Code of 1986, as amended (the “Internal Revenue Code”), all such plans or accounts hereinafter referred to as a “Plan,” and the portion of such Plan held in a Program account is hereinafter referred to as the Client’s “Plan Account.”

To the extent that HTIN, its IARs, Correspondents, and Correspondent IARs provide investment advice with respect to a Client’s Plan Account for a fee, each acknowledges that it is a “fiduciary” within the meaning of Section 3(21) of ERISA and Section 4975(e)(3) of the Internal Revenue Code. In connection with the maintenance of a Client’s Plan Account, HTIN may rely on one or more prohibited transaction exemptions under ERISA and/or the Internal Revenue Code to comply with the requirements of such exemptions. Plan Clients may be required to provide HTIN with certain requested information or acknowledgements as necessary to comply with the conditions or such exemptions. None of HTIN, its IARs, Correspondents, or Correspondent IARs will have or exercise any discretionary authority or control over the assets in a Client’s Plan Account, have any duty or obligations with respect to the administration/operation of the Plan, or have the duty or obligation to diversify the Plan’s overall investments.

The Client remains solely responsible for (i) determining whether and to what extent the Plan Account is appropriate for the Client and the Plan; (ii) compliance with the Plan’s governing documents; and (iii) compliance with the requirements, duties and obligations under ERISA and/or the Internal Revenue Code, including, without limitation, the duty to diversify the assets in the Plan Account. The Client should carefully review this Brochure and evaluate the services provided by HTIN, its IARs, Correspondents, Correspondent IARs, and their affiliates, the reasonableness of the overall fees charged for such services, and the effect of any potential conflicts of interest.

With respect to any service fees and sweep compensation that may be payable to HTIN, IARs, Correspondents, Correspondent IARs, and/or their affiliates, unless an appropriate exemption applies or the compensation is otherwise permitted under applicable law, the Program fees charged to a Client's Plan Account will be reduced and offset by the respective amount of compensation received from the mutual funds and/or money market funds in connection with the investment of Plan Account assets in such mutual funds and money market funds.

If ERISA or other applicable law requires bonding with respect to the assets in the Plan Account, the Client will obtain and maintain at its expense any required bonding and will cover HTIN, its Investment Advisory Representatives, Correspondents, and Correspondent IARs, as applicable.

## **Premier Advisors**

The Premier Advisors Program is a discretionary investment advisory program sponsored by HTS ("Sponsor") and made available to advisory Clients of HTIN through a co-advisory agreement between HTS and HTIN. The program provides you access to a broad selection of Separately Managed Accounts ("SMAs") and Unified Managed Account strategies ("UMAs").

Premier Advisors is made available with Envestnet Asset Management, Inc. ("Envestnet"), a non-affiliate investment adviser registered under the Investment Advisers Act, through its web-based platform. As manager of the web-based platform, Envestnet has entered into a sub-management agreement with investment managers ("Envestnet Managers") to manage various types of portfolios offered through the platform and to develop model portfolios and research that may be made available to Sponsor, IARs and IAR Clients. For certain Envestnet Managers, Envestnet has entered into a licensing agreement with the manager, whereby Envestnet performs administrative and/or trading duties pursuant to the direction of the sub-manager. In such situation the Envestnet Manager is acting in the role of "Model Provider." The Model Providers are responsible for all investment selections made for the portfolios they create. It is up to the Client to select a Third Party Model portfolio. Unless Envestnet affirmatively cites the Model Providers as "approved" as described below in Methods of Analysis, Envestnet does not collect and report data on investment style and philosophy, past performance and personnel of Model Providers.

In SMAs, you are offered access to actively managed investment portfolios managed by independent investment managers. Unlike a mutual fund, where funds are comingled, a separately managed account is a portfolio of individually owned securities that can be tailored to fit your investing preferences. IARs will work with you to complete a Statement of Investment Selection ("SIS") which includes a Risk Tolerance Questionnaire. The purpose of this statement is to establish an understanding between the Client, HTIN and Envestnet regarding the investment objectives, goals, and guidelines for your investment management account. This will also assist you with the selection of the investment manager(s). The asset managers who may be selected for these Programs employ different methods of analysis that are described in each managers' Disclosure Brochure.

A UMA provides you access to combine a broad selection of ASG programs, investment managers and fund's in a single portfolio. Your IAR will provide you with recommendations regarding the appropriate asset allocation and underlying investment vehicles or investment strategies to meet your objectives, but you are directing the investments and changes made to the UMA portfolio and are ultimately responsible for the selection of the appropriate asset allocation and underlying funds or investment strategies. Envestnet provides overlay management services for UMA accounts and implements trade orders based on the directions of the investment strategies contained in the UMA portfolio. Your IAR will assist you in creating a customized portfolio, providing you with recommendations regarding the asset allocation and underlying investment strategies. You shall select the asset allocation and the investment strategies. The asset managers who may be selected for this Program employ different methods of analysis that are described in each manager's Disclosure Brochure. In addition, to the extent that other investment vehicles are utilized in your portfolio such as mutual funds or ETFs, you should read the offering documents (e.g., prospectus, offering memorandum, etc.) carefully to fully understand the various risks, investment objectives, expenses and other information about the company associated with the investment.

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

## **Direct Access – Fund Strategists Portfolios (FSPs)**

The Direct Access program is an investment advisory program sponsored by HTS ("Sponsor") that provides you access to a selection of FSPs managed on a discretionary basis. The Program will provide adviser's access to investment strategists who construct distinct portfolio solutions to help meet the ever increasing demands of today's investors. They typically comprise a set of mutual funds and/or exchange-traded funds (ETFs). Direct Access FSP solutions espouse various approaches to portfolio construction and asset allocation, whereas most Direct Access FSP portfolios employ a long-term, strategic asset allocation approach, others take a dynamic or tactical approach and actively shift allocations in order to take advantage of short-term market movements. Your IAR will assist you in selecting one or more FSPs from a roster based on your financial situation, investment objectives and risk tolerance. HTIN also provides you with monitoring and reporting of portfolio performance on an on demand basis.

For each model portfolio, the FSP determines the Strategy, including the underlying mutual funds or ETF's to be used for each Strategy, the allocation of assets to each "fund", and the investment advisory firms ("Money Managers") responsible for managing the assets of each "fund". The FSP will make changes to their underlying Strategies; and, periodically may change the Money Managers for the "funds" and/or the allocation of assets of the "funds" to the various Money Managers. At HTIN's discretion, HTIN will implement the changes proposed by the FSP.

Fund-selected investment managers are terminated or replaced by the FSP generally due to changes in senior investment personnel and/or a deviation from the desired investment discipline. Such changes to fund investments are made without prior notice to you.

We reserve the right to remove any FSP from the Direct Access Program without prior notice to you. Factors involved in our decision to remove an FSP may include failure to adhere to a management style or your objectives, a material change in the adviser's professional staff, unexplained poor performance, dispersions of your account performance, or our decision to no longer include the FSP on our roster. HTIN will determine whether any or all of these factors are material when deciding whether to recommend termination. You may also elect to remove an FSP from your account.

Information HTIN collects regarding any FSP, mutual funds, or ETFs is believed to be reliable and accurate, but we do not necessarily independently review or verify it on all occasions. While performance results are generally reported to us through consultants or FSP on a standard gross of fees or a commission basis, we do not audit or verify that these results are calculated on a uniform or consistent basis as provided by a FSP directly to us or through the consulting service we use.

Direct Access is available through HTS and its IARs. HTS may also allow one or more independent Registered Investment Advisor ("Co-Adviser") and their IARs ("Co-Adviser IARs") to offer the Direct Access Program to their investment advisory clients. Certain Co-Advisors may be affiliated with HTS.

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

## Fees and Compensation

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

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

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

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

*HTIN will retain between .10% and 25% of the fee assessed to the Client for administrative services provided.*

Advantage Maximum Annualized Fee Schedule	
Total Account Value	Fee
Up to \$249,999	1.75%



\$250,000- \$499,999	1.50%
\$500,000- \$999,999	1.25%
\$1,000,000 and over	1.00%

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

*HTIN will retain between .10% and 25% of the fee assessed to the Client as sponsor of the program.*

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

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

### **Premier Advisors Program Fees**

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

Where applicable, HTIN may also receive a portion of the fee for providing advisory services to Clients introduced to the program. The amount retained is typically the amount remaining after the deduction of fees payable to individual portfolio managers and fees payable to HTIN for clearing, program administration and sponsorships. The HTIN portion of the fee will generally fall within a range of 0.50% to 1.75% (annual rate) of assets under management. The level of fees will vary with the amount of assets under advisement in the Premier Advisors Program and the particular investment styles and investment options chosen or recommended.

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

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

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

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

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

## **Billing Practices for all Programs**

The billing process described below is subject to change upon prior written notice to you.

## 1. Relating Accounts for Billing Purposes

You may request to have two or more eligible Advisory accounts be treated as related accounts for purposes of taking their assets into consideration in order to calculate the Program Fee. This means that all eligible assets in those accounts will be considered together when determining breakpoints, if applicable, in the fee schedule. This request is subject approval from HTIN.

Relating Advisory accounts can provide the opportunity for price reductions at certain breakpoints.

If you choose a breakpoint fee schedule for your Account, you should review and consider the potential benefits of relating advisory accounts. The Program Fee for Advisory Accounts with a breakpoint fee schedule that are terminated prior to the quarterly billing process will be based on the contractual rate for that Account, not the relationship rate. Please contact your IAR for more information on the definition of eligible accounts and how to choose this billing option. Retirement Accounts may not be linked where a prohibited transaction under ERISA or the Internal Revenue Code may result.

## 2. Initial Program Fee

We will deduct your Initial Program Fee from your Account when your account is accepted for the Program. The fee will be calculated based on the value of the eligible assets on the date your account is accepted, pro-rated to cover the period from the date your account is accepted through the end of the calendar quarter.

## 3. Quarterly Fee

After the assessment of the Initial Program Fee, your subsequent Program Fees will be assessed quarterly based on the net asset value (i.e., fair market value of the eligible assets including dividends and, where applicable, accrued interest, the value margin loans) in the Account on the last business day of each calendar quarter. Fees will be charged directly to your account in the month following the close of a calendar quarter unless you have designated another eligible HTIN account to pay the Program Fee. Your fee is an annual percentage of your account assets—and you will pay the fee quarterly in advance, pro-rated according to the number of calendar days in the billing period.

Advisory fees are calculated on the fair market value of the assets, as determined by HTS (Envestnet for Premier Advisors accounts), on the last business day of the preceding calendar quarter. If the management of the account commences or is terminated at any time other than at the beginning or end of a calendar quarter, the fee is prorated based on the initial account value and the number of days the account was open in that quarter. For calculation purposes the fee is based on 365 actual days in a year (366 for leap year). The calculation is as follows:  $(\text{Market Value} \times \text{Rate} \times (\text{Days} / 365))$  with the Rate being the agreed upon fee within the Advisory Agreement. For more complete information on the fee charged, please contact your IAR. If you would like a copy of the most recent form ADV or disclosure brochure document, which describes our programs, including services and fees, you may contact your IAR.

For the purposes of calculating the Program Fee, the value of the Account is calculated as the sum of the long and short market value of all Billable Securities held in the Account, plus accrued interest, minus any margin loan balances, as of the last day of the prior quarter. For mutual funds, we will use the fund's net asset value, as computed by the mutual fund company. HTIN prices securities based on information we believe to be reliable. If any prices are unavailable or believed to be unreliable, we will determine prices in good faith to reflect our understanding of fair market value.

If the Agreement is terminated prior to the end of the quarter, you will receive a pro rata refund of the prepaid, unearned fees from the date the Account is removed from the Program through the end of the quarter. Please see the "Account Termination" section of this Disclosure Brochure for additional information.

When fees are calculated, certain assets may be excluded from the market value of the Account. These are called "Unbillable Assets" and will not be included in the "billable" Market Value. Unbillable Assets are generally securities that are not considered approved for the Program or that the IAR and Client have agreed should be held only and not included in Account rebalancing, performance tracking and management of Account. Cash and cash equivalents are included in the Program Fee calculations.

## 5. Alternative Investments Valuation and Redemptions

The valuation of alternative investments held at HTIN reflect the records of the issuers and administrators of those funds. HTIN does not guarantee the accuracy of the information. The value shown is not necessarily the value you would receive from the issuer if you sold the assets. Funds actively sold by HTIN are subject to ongoing research, although the level performed may vary. In very limited

circumstances, a closed fund may be subject to no ongoing research. A fund that you purchased elsewhere may never have been subject to HTIN research.

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

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

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

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

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

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

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

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

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

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

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

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

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

### **Compensation to IARs Who Recommend Advisory Programs**

In general, we pay our IARs cash production payout. The production payout is a percentage of the product-related revenue that each IAR generates during that billing cycle with respect to the clients he or she serves, minus adjustments due to distributions from or the closing of the advisory account. The payout rate is generally based on production levels and ranges from 60% to 90%. IARs working as part of a team that meets minimum production requirements can qualify for a higher grid rate (but not above 90%) than they would receive working as an individual.

We reserve the right, at our discretion and without prior notice, to change the methods by which we compensate our IAR and independent contractors, including reducing and/or denying production payout and at our discretion for any reason.

**Recruitment Compensation:** In general, if your IAR is joining HTIN from another firm, you should discuss the reasons your IAR decided to change firms and any costs or changes in services you incur by transferring your accounts to HTIN. In many cases, HTIN pays IARs financial incentives when they join and on an ongoing basis as described below.

Many IARs who joined HTIN are eligible to receive financial incentives. These incentives can be substantial and take various forms, including, loans, transition bonus payments, reimbursement of client account transfer fees and various forms of compensation to encourage IARs to join HTIN, and are contingent on your IAR's continued affiliation.

These practices create an incentive and a conflict of interest for your IAR to recommend the transfer of your account assets to HTIN. You should carefully consider whether your IAR's advice is aligned with your investment strategy and goals.

### **HTIN Program Eligible/Ineligible Assets and Non-Billable Assets in the Advisory Programs**

This Section describes our general policies regarding eligible assets in our Advisory programs. The "Partner" program provides a greater level of flexibility than other Advisory programs as it pertains to eligible assets—i.e., those assets held in your account that are subject to our advice.

Specifically, the program permits you to hold, but not to purchase, certain assets deemed ineligible in other programs such as the following:

- B share class and C share class mutual funds and other classes deemed ineligible
- Open-end mutual funds not approved for the Program
- UITs not approved for the Program
- ETFs and closed-end funds not approved for the program
- Structured products not approved for the program
- Alternative investments not approved for the Program, including hedge funds, hedge fund of funds, managed futures, and restricted stock.

While these assets may be held in Program Accounts, and therefore subject to our ongoing advice, they are excluded from the calculations of your Program Fees due to the additional compensation that we receive in connection with those investments. These “Non-billable assets” will not be included when determining the minimum account opening requirement, but they may be included in the performance reports for your “Partner” account.

#### Investment strategies; Eligible and Ineligible Assets

We employ a variety of investment strategies in connection with our wrap fee and other investment Advisory services, depending upon:

- The type of client involved
- The Program chosen
- The objective and risk tolerance selected by the client

These strategies may involve the use of asset allocation models, long-term and short-term investments. HTIN may use our discretion to expand the offerings in our programs to include multiple style accounts and investment strategies that include:

- The purchase and sale of mutual funds
- ETFs/ETNs
- Non-Daily Traded Alternative investment vehicles
- Margin and short sales
- Option strategies

We may impose special suitability and investment requirements with respect to these portfolios.

#### Eligible Assets and Ineligible Assets

We require that you hold and purchase only eligible assets in your Advisory accounts. Generally, with respect to most of the Programs described in this brochure, you or your IAR, SMA Manager or FSP manager may purchase and sell securities of any kind which may include the following eligible assets:

- U.S. and foreign stocks – both common and preferred shares
- Government, Corporate and Municipal Bonds (agency transactions only) – Investment Grade only in certain retirement plan accounts
- Options (in certain programs)
- American Depositary Receipts
- Closed-end funds
- Open-end mutual funds (in certain programs) which may include several share classes including Institutional, Advisory and other non 12b-1 fee paying share classes.
- Eligible wrap cusip UITs (in certain programs)
- Eligible ETFs/ETNs
- Money market funds (in certain programs)
- Public REITs
- Approved Publicly Registered Non-Traded REITs (“Partner” program only) that price quarterly at a minimum
- Approved Eligible Structured Products (“Partner” program only) that price quarterly at a minimum

The following products may not be eligible (“Ineligible Assets”) for our Advisory programs:

- Syndicate Issues/Initial Public Offerings/Brokered CDs
- Short Positions
- Solicitation of Low Priced Securities – As defined in Section 11.3.3 of the WSP’s – No unsolicited purchases in DOL related accounts
- Fixed, Variable Annuities and other Insurance Products
- Non-publicly traded securities/Private Placements/Worthless Securities
- Non-networked mutual funds
- Share classes of mutual funds that pay 12b-1 fees or have CDSC charges unless approved
- Auction Rate Securities – Individual issues
- Leveraged and Inverse ETFs and ETNs. This also includes any derivative thereof, including, but not limited to, options, swaps or futures contracts on these inverse/leveraged ETFs/ETNs.
- Day Trading

- All other Non-Daily Traded Alternative investments including, but not limited to, brokerage share classes of Hedge Funds, Funds of Funds, Real Estate and Private Equity
- Alternative Investment funds that do not offer an Advisory or Institutional Share class.
- Listed or OTC index warrants
- Commodities and futures (in certain programs)
- Non-Daily traded alternative investments – brokerage share classes
- The list above describes the products which are usually (but not always) eligible or ineligible in our Programs. The list can change at any time in our discretion. Eligibility of investments can vary by program and strategy type. Please contact your IAR for the list of eligible investments in your specific program.
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- Our Advisory programs do not offer the ability to conduct principal trades. As such, in these accounts, you may not hold, purchase or sell securities that trade only on a principal basis. Currently, you have access to principal execution in your Advisory account only for tax loss sales transactions in worthless securities in all Programs.
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- Hilltop Holdings (HTH) Stock. Subject to the exception described below, our Advisory Programs do not offer HTH stock or HTH securities. Program Accounts may not be funded by depositing HTH stock.
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- SMA Managers in the Premier Advisors Program who are not affiliated with HTIN may be able to purchase HTH securities for your Accounts (this is limited to the common stock of HTH. We may expand this option to other Programs in the future.

#### **Impact of Ineligible Assets in Your Accounts:**

- Neither HTIN, your IAR, SMA/FSP Manager will act as your investment advisor with respect to Ineligible Assets. If you hold Ineligible Assets in your Advisory account and you also have a separate HTIN commission-based brokerage account, we may transfer those assets from your Program account to your HTIN commission-based brokerage account in order to facilitate our billing and performance reporting. However, you understand that we are not obligated to transfer those assets and you remain responsible for monitoring and moving these assets from the Programs. The transfer of Ineligible Assets from your Advisory Program account to your brokerage account will not result in liquidation of your securities or taxable events, commissions or any other compensation either to HTIN or your Investment Adviser. It may also lead to termination of your Account.
- 
- If you do not have a separate HTIN commission-based brokerage account and you decide to hold Ineligible Assets in your Advisory account, you do so against our recommendation and with the understanding that the value of those securities may impact a variety of services offered in the Programs and be included for purposes of calculating and reporting the performance of your account, and calculating the Program Fee and other account billing events, resulting in a higher fee to us. It may also cause a trade error(s) due to over investment and may lead to termination of your account.

#### **Mutual Fund Investments available through HTIN**

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

You should be aware that mutual funds contain internal expenses which are apart from and in addition to Program Account fees and which are described in the respective funds' prospectuses. Certain funds offered in the Program, while not having sales charges or having sales charges waived, may assess distribution fees, such as those assessed pursuant to SEC Rule 12b-1 of the Investment Company Act of 1940, as amended ("12b-1 Fees") which may be paid to HTIN. To the extent that HTIN receives 12b-1 shareholder servicing fees for Non-Advisory Share classes in any Managed Accounts, they will be rebated to clients. You are referred to the respective mutual fund prospectuses for detailed information about such fees.

Eligibility for various share classes offered by mutual funds to be used as part of the Managed account programs, is determined by the mutual fund and disclosed in the fund's prospectus. Rule 12b-1 fees will be rebated to client accounts as they are received. Use of a more costly share class will reduce the performance of a client's account. Any recommendation to use a more costly share class when a lower cost share class of the same fund is available is a conflict of interest. The firm mitigates this conflict in that advisors do not have an incentive to recommend or select share classes that have higher expense ratios because their compensation is not affected by the share class selected. In Addition, these 12b-1 fees, too, will be rebated to client accounts.

Shareholders considering transferring mutual fund shares to or from HTIN should be aware that if the firm from or to which the shares are to be transferred does not have a selling agreement with the fund company, the shareholder must either redeem the shares (potentially

incurring a tax liability) or continue to maintain an investment account at the firm where the fund shares are currently being held. Clients should inquire as to the transferability, or “portability”, of mutual fund shares prior to initiating such a transfer.

Upon termination of their Managed account, Clients would generally be permitted to continue holding the institutional class of the fund, but will be unable to make additional investments. In addition, upon termination of an account holding these shares purchased in a Managed account through HTIN, these shares may be redeemed by HTIN, as they may not be held outside of a managed account.

### **MUTUAL FUNDS ASSESSED OR SUBJECT TO 12B-1 FEES OR SALES CHARGES**

HTIN will convert existing advisory fee-eligible mutual fund positions in Advantage and “Partner” APM Program accounts to a specific mutual fund share class (“wrap recommended share class”) in an effort to provide advisory clients with lowest cost share class available through HTIN. HTIN will perform ongoing quarterly maintenance conversions to ensure the wrap recommended share class has been selected for the client’s account. These share class conversions are non-taxable events, and clients’ cost basis will carry over to the new wrap recommended share class.

### **FUNDING YOUR ACCOUNT**

You may fund your account by depositing cash and/or eligible securities designated as “eligible” for the Advantage and “Partner” Programs.

Class A shares used to fund accounts subsequent to the Share Class Conversions will be automatically converted, on a tax- free exchange basis (subject to availability of that service by the mutual fund sponsor), to the new share class available for the relevant fund.

If you fund your account with securities, you authorize and direct HTIN, as applicable given the terms of your program, to liquidate those securities on your behalf and to allocate the proceeds in accordance with your selected investment style.

We will not advise you regarding the liquidation of these securities. We will execute those transactions free of commission charges; however, depending on the type of security involved, those liquidations may result in you incurring redemption charges and taxable gains or losses. You should review the potential tax consequences of these liquidations with your tax advisor before funding your account with securities.

When liquidating these securities for purposes of establishing your account, we will be acting as your broker, not your investment adviser. Liquidations will be effected promptly after acceptance of your account at the then prevailing market prices.

We will not be responsible for the liquidations and any consequences due to your failure to notify us of other existing security holdings, the overall effect of liquidations once effected, or the loss of potential gains due to movements in the market prices or changes in market conditions.

Securities that are ineligible for an Investment Advisory program should be transferred to a brokerage account. If immediately prior to funding an Advisory account, you choose to liquidate eligible and/or ineligible securities to fund an account with the cash proceeds, those liquidations will not be subject to commission charges or if charged, commissions will be reversed.

For Programs that offer mutual funds, we will provide you with mutual fund prospectuses and other fund information as you may reasonably request to assist you in completing appropriate forms for purchases, redemptions, account designations, address changes and other transactions involving these investments.

Class A shares are available for mutual funds that do not offer Institutional or Advisory share classes or that declined to make those shares available in the Programs. Class A shares normally impose a shareholder servicing fee, commonly referred to as a 12b-1 fee, which you pay directly to the fund company. These fees will be rebated to your account.

The Class A shares available in the Advisory Programs do not impose a load or sales charge at the time of purchase; however, because most Institutional or Advisory share classes do not impose a 12b-1 fee shareholder servicing fee, these share classes are usually more cost effective than the Class A shares.

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

### **Funding your account with Securities/Commissions Lookback**

Securities trades executed 30 days prior to the date the client signed the account agreement, should not include commissions or sales credits. Any securities trades in the previous 30 days that have had commission charges must be canceled and rebilled to reflect that no charges were made to the customer. Mutual funds, Unit Investment Trusts and other products with a sales load that have not been held

for the previous 12 months may not be eligible for an Advisory Program account. The positions should not be liquidated prior to approval in expectation of acceptance into the program. These positions will be reviewed for eligibility on a case by case basis by the IA Surveillance Manager and Sales Supervision. If not approved, these positions will need to be kept in a separate brokerage account until the full 12 months has passed or may be deemed as. This will not apply to positions that transfer into the account from other firms.

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

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

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

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

Under certain circumstances, your IAR may temporarily place certain restrictions on securities for the purpose of model rebalancing. This is for portfolio trading purposes only.

## **Account Termination**

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

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

## **IAR Termination from the Programs**

We retain the authority to remove any IAR from the Programs at any time and to transfer day-to-day management responsibility of your account to another HTIN IAR or OSJ in certain situations, at any time without first notifying you or obtaining your consent. In most cases this will result in the termination of your advisory agreement and the need to establish an advisory agreement with newly assigned IAR.

## **Conflicts of Interest**

Conflicts of interests can arise with respect to a variety of business and other relationships in almost any investment advisory program. When we act as your Investment Advisor, we and our IARs earn more when you invest more in your advisory account, and we earn the same advisory fee rate regardless of how frequently you trade. We also may receive payments from third parties, including the investment products in which you invest, and their sponsors. These third party fees are disclosed in our Form ADV Brochure and the investment product's prospectus and other offering documents. Please refer to the "Other Financial Industry Activities and Affiliations" section under the "Additional Information" heading below for discussion of conflicts of interest relationships and product-specific compensation that is received by HTIN.

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

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

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

HTIN generally provides investment advisory services for individuals, individual retirement accounts ("IRAs"), banks and thrift institutions, pension and profit sharing plans, including plans subject to Employee Retirement Income Security Act of 1974 ("ERISA"),



trusts, estates, charitable organizations, state and municipal government entities, corporations and other business entities. HTIN can prohibit anyone or any account type from establishing a Program Account for any reason, including if we believe it is not an appropriate investments strategy for you.

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

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

## Methods of Analysis and Investment Strategies

### Manager/Strategist Selection and Evaluation

The Methods of Analysis used and Investment Strategies for each Program are described here and below.

We may use the following investment strategies, as appropriate, when managing client assets:

#### Long-term Purchases:

Where appropriate, HTIN employs a long-term investment strategy when formulating the investment advice given to clients. This entails the purchase of securities with the idea of holding them in your account for a year or longer. We may do this because we believe the securities to be currently undervalued. We may do this because we want exposure to a particular asset class over time, regardless of the current projection for this class.

A risk in a long-term purchase strategy is that, by holding the security for this length of time, HTIN may not take advantages of short-term gains that could be profitable to you. Moreover, if our predictions are incorrect, a security may decline sharply in value before we make the decision to sell.

#### Short-term Purchases:

Where appropriate, HTIN may also purchase securities with the idea of selling them within a relatively short time, typically a year or less. We do this in an attempt to take advantage of conditions that we believe will soon result in a price swing in the securities we purchase.

A risk in a short-term purchase strategy is that, should the anticipated price swing not materialize, HTIN is left with the option of having a long-term investment in a security that was designed to be a short-term purchase, or potentially taking a loss. In addition, this strategy involves more frequent trading than does a longer-term strategy, and may result in increased brokerage and other transaction-related costs, as well as less favorable tax treatment of short-term capital gains.

#### Short Sales:

A short sale is a transaction in which you sell a security that you do not own. HTIN may borrow shares of a stock for your portfolio from someone who owns the stock on a promise to replace the shares on a future date at a certain price. We then sell the shares we have borrowed. On the agreed-upon future date, we buy the same stock and return the shares to the original owner. We engage in short selling based on our determination that the stock will go down in price after we have borrowed the shares. If the stock has gone down since we purchased the shares from the original owner, the client keeps the difference. There may be certain costs associated with the securities that HTIN borrows on your behalf, and you agree to pay such costs.

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

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

#### Margin:

Leverage strategies, such as using margin, may be desirable in some cases but are generally not recommended for Advisory accounts. If your account is approved for margin trading, you may be required to deposit additional securities or cash on short notice to maintain your position and/or to maintain sufficient assets to meet HTIN's requirements. If you do not meet requirements in the required time frame, we may liquidate all or a portion of your holdings. You will be liable for any resulting deficit in your Account. Margin trading can work against you as well as for you, for example, larger losses as well as the potential for larger gains. Before you begin using margin, please read the "Margin Disclosure" brochure available from your IAR. Maintaining a margin account balance will also increase the wrap fee to the extent of the margin exposure. It is important that you fully understand the risks involved in trading securities on margin. These risks include but are not limited to the following:

- You can lose more funds than you deposit in the margin account.
- HTIN can force the sale of securities or assets in your account and in some cases without contacting you.
- You will pay interest on the outstanding margin loan balance.
- The use of margin may have a positive or negative performance affect, net of interest charges and other account fees that may be greater as a consequence of using margin. As a result, gains or losses in a leveraged managed account may be greater than would be the case with an unleveraged managed account.

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

### **Options:**

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

### **Risk of Loss**

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

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

- **Market risks:** The prices of, and the income generated by, the common stocks, bonds, and other securities you own may decline in response to certain events taking place around the world, including those directly involving the issuers; conditions affecting the general economy; overall market changes; local, regional, or global political, social, or economic instability; governmental or governmental agency responses to economic conditions; and currency, interest rate, and commodity price fluctuations.
- **Asset Allocation and Diversification Risk:** The performance of Accounts is dependent on the allocation of securities among various asset classes and the selection of underlying Funds. There is a risk that IAR's decisions regarding asset allocation and the selection of investments will cause an Account's performance to lag relevant benchmarks or will result in losses. While allocations to multiple asset classes can reduce risk, risk cannot be completely eliminated with diversification. Asset allocation and diversification do not guarantee a profit or protect against loss.
- **Stock Investments Risk:** Stock markets are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. Different parts of the market can react differently to these developments. In addition, stock investments are subject to risk related to market capitalization as well as company-specific risk.
- **Long-Term Purchases Risk:** IARs often recommends that clients purchase investments with the intention of holding them for one year or longer. This recommendation is often because the IAR believes the investments to be undervalued at the time of purchase and/or because IAR chooses to recommend exposure to a particular asset class over time, regardless of the current projection for such class. A risk of a long-term investment strategy is that by holding an investment for a longer period of time, the client is not be able to take advantage of potential short-term gains. Moreover, if the analysis is incorrect, an investment can decline sharply in value before it is sold.
- **Volatility and Correlation Risks:** Clients should be aware that the IAR's asset selection process is based in part on a careful evaluation of past price performance and volatility in order to evaluate future probabilities. However, it is possible that different

or unrelated asset classes exhibit similar price changes in similar directions, which can adversely affect Client and become more acute in times of market upheaval or high volatility. Past performance is no guarantee of future results, and any historical returns, expected returns or probability projections do not reflect actual future performance.

- **Small-Cap Risk.** Historically, small-cap stocks have been riskier than large- and mid-cap stocks. Stock prices of smaller companies may be based in substantial part on future expectations rather than current achievements and may move sharply, especially during market upturns and downturns. Small-cap companies themselves may be more vulnerable to adverse business or economic events than larger, more established companies. During a period when small-cap stocks fall behind other types of investments —large-cap stocks, for instance—a client's small-cap holdings could reduce performance.
- **Fixed Income:** Bonds may offer return of principal if held to maturity, but any offer remains subject to the creditworthiness of the guarantor and, prior to maturity, the bond may be subject to interest rate, inflations and credit risks.
- **Credit Risk:** Changes in the financial condition of an issuer or counterparty and changes in specific economic or political conditions that affect a particular type of security or issuer can increase the risk of default by an issuer or counterparty, which can affect a security's or instrument's credit quality or value. Lower quality debt securities and certain types of other securities involve greater risk of default or price changes due to changes in the credit quality of the issuer.
- **Municipal Bond Risk:** The municipal market can be affected by adverse tax, legislative, or political changes and the financial condition of the issuers of municipal securities. Municipal funds normally seek to earn income and pay dividends that are expected to be exempt from federal income tax. If a fund investor is a resident in the state of issuance of the bonds held by the fund, interest dividends are sometimes exempt from state and local income taxes. Income exempt from regular federal income tax (including distributions from tax-exempt, municipal, and money market funds) may be subject to state, local, or federal alternative minimum tax. Certain Funds normally seek to invest only in municipal securities generating income exempt from both federal income taxes and the federal alternative minimum tax; however, outcomes cannot be guaranteed, and the Funds sometimes generate income subject to these taxes. For federal tax purposes, a fund's distributions of gains attributable to a fund's sale of municipal or other bonds are generally taxable as either ordinary income or long-term capital gains. Redemptions, including exchanges, can result in a capital gain or loss for federal and/ or state income tax purposes. Tax code changes could impact the municipal bond market. Tax laws are subject to change, and the preferential tax treatment of municipal bond interest income may be removed or phased out for investors at certain income levels.
- **Quantitative Investing Risk:** Securities selected in mutual funds using quantitative analysis can perform differently from the market as a whole as a result of the factors used in the analysis, the weight placed on each factor, changes to the factors' behavior over time, market volatility, or the quantitative model's assumption about market behavior.
- **Derivatives Risk:** Some mutual funds selected may contain derivatives, such as swaps and exchange-traded futures. Generally speaking, a derivative is a financial contract whose value is based on the value of a reference asset. Investments in derivatives subject these mutual funds to risks different from, and possibly greater than, those of the underlying securities, assets, or market indexes. Some derivatives involve leverage and provide investment exposure in an amount exceeding the initial investment. As a result, the use of derivatives causes these mutual funds to be more volatile, because leverage tends to exaggerate the effect of any increase or decrease in the value of a fund's portfolio securities.
- **International/Global Securities Risk:** expose the investor to currency risk and political, social and economic risks of the countries in which the securities are domiciled, in addition to the equity or debt nature of the securities involved.
- **Pooled Investments Risk:** Certain strategies may invest in one or more pooled investment funds including mutual funds, ETFs, UITs Real Estate Investment Trusts, etc. You should read the offering documents (e.g., prospectus, offering memorandum, etc.) carefully to fully understand the various risks, investment objectives, expenses and other information about the company associated with the investment.
- **Trading Frequency Risk:** Frequent trading may result in short-term capital gains which are taxed at a higher rate than long term capital gains.
- **Market Trading Risks:** Exchange Traded Funds/Notes face various market trading risks. This may include the potential lack of an active market for Fund shares, losses from trading in the secondary markets, periods of high volatility and disruption in the creation/redemption process of the Fund. Any of these factors, among others, may lead to the Fund's shares trading at a premium or discount to the NAV. For additional information please refer to the Fund's prospectus for more specific market trading risk.
- **Legislative and Regulatory Risk:** Investments in your Account may be adversely affected by new (or revised) laws or regulations. Changes to laws or regulations can impact the securities markets as a whole, specific industries and individual issuers of securities. The impact of these changes is not always known for some time.
- **Liquidity Risk:** Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many traders are interested in standardized products. There is a greater degree of illiquidity in those non-standardized products such as Alternatives, Structured and other products that are redeemed by the issuer's acceptance of a tender offer.
- **Cybersecurity Risk:** With the increased use of technologies to conduct business, corporate and personal technology are susceptible to information security and related risks. In general, cyber incidents can result from deliberate attacks or unintentional events and arise from external or internal sources. Cyberattacks include, but are not limited to: gaining unauthorized access to digital systems (e.g., through "hacking" or malicious software coding) for purposes of misappropriating

assets or sensitive information; corrupting data, equipment or systems; or causing operational disruption. Cyberattacks are also carried out in a manner that does not require gaining unauthorized access, such as causing denial-of-service attacks on websites (i.e., efforts to make network services unavailable to intended users). Cyber incidents affecting HTIN, its affiliates or IARs, or any other service providers (including, but not limited to accountants, custodians, transfer agents, and financial intermediaries used by a fund or an account) have the ability to cause disruptions and impact business operations, potentially resulting in financial losses, interference with the ability to calculate net asset value (“NAV”), impediments to trading, the inability to transact business, destruction to equipment and systems, violations of applicable privacy and other laws, regulatory fines, penalties, reputational damage, reimbursement or other compensation costs, or additional compliance costs. Similar adverse consequences could result from cyber incidents affecting issuers of securities in which an Account invests, counterparties with which an entity engages in transactions, governmental and other regulatory authorities, exchange and other financial market operators, banks, brokers, dealers, insurance companies and other financial institutions (including financial intermediaries and service providers), and other parties.

Clients should understand that investing in any security involves a risk of loss of both income and principal. There can be no assurance that the IAR’s or HTIN’s investment advice and recommendations will be successful or that Client’s investment objective will be achieved.

### **Partner APM - Methods of Analysis**

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

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

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

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

- **Fundamental Analysis:** A method of evaluating a security that entails attempting to measure its intrinsic value by examining related economic, financial, and other qualitative and quantitative factors. Fundamental analysts attempt to study everything that can affect the security's value, including macroeconomic factors (e.g., the overall economy and industry conditions) and company-specific factors (e.g., financial condition and management). The end goal of performing fundamental analysis is to produce a value that an investor can compare with the security's current price, with the aim of figuring out what sort of position to take with that security (underpriced = buy, overpriced = sell or short). This method of security analysis is considered to be the opposite of technical analysis.
- **Quantitative Analysis:** An analysis technique that seeks to understand behavior by using complex mathematical and statistical modeling, measurement, and research. By assigning a numerical value to variables, quantitative analysts try to replicate reality mathematically. Some believe that it can also be used to predict real-world events, such as changes in a share price.
- **Qualitative Analysis:** Securities analysis that uses subjective judgment based on no quantifiable information, such as management expertise, industry cycles, strength of research and development, and labor relations. This type of analysis technique is different from quantitative analysis, which focuses on numbers. The two techniques, however, are often used together.

### **Advantage Program - Methods of Analysis**

HTIN maintains a list of mutual funds and ETFs eligible to participate in the Advantage Program. Selection of the eligible funds may include the following minimum criteria stated below. HTIN reserves the right to update and change the criteria at our discretion.

For Mutual Funds:

- The funds that have received four or five stars on the Morningstar rating system<sup>1</sup>.
- The funds must have selling agreements in place with HTIN and be wrap-eligible.
- The funds' classification must match those of the allocation strategy.
- The funds must be open to new and/or additional investments.
- The funds must have a 12b-1 fee of 0.25 or less.
- The funds must have a minimum initial purchase amount of \$3,000 or less.

For ETFs:

- The ETF classification must match those of the allocation strategy.
- Fund expense ratio must be equal to or less than .75.

Your IAR will research and recommend funds from the Eligible Funds List for your account based on the stated risk tolerance and investment objectives. Each adviser may have a different philosophy or criteria in the review and selection of investment products.

Each quarter the list is reviewed by HTIN. Mutual Funds and ETFs that are on the list that do not meet the initial qualifying parameters the following quarter may be removed from the eligible funds list for new money. The IARs of HTIN (or Correspondents, where applicable) are notified of the status change and the reason for any change is made available to them. For mutual funds that are no longer open to new and/or additional investments, Clients that maintain a position may continue to do so as deemed appropriate by the IARs of HTIN (or Correspondents, where applicable).

HTIN makes available 5 Advantage Asset Allocation models that you and your IAR will choose from. The IAR will work with you to determine a model, the underlying funds and direct rebalancing as needed based on your risk tolerance and profile. The Investment Policy Committee periodically reviews the Asset Allocation Models, client profiling and portfolio construction adequately reflect and represent the Committees philosophy or policies regarding these matters.

The Committee also reviews the HTIN methods and processes of gathering information on mutual funds and investment vehicles.

### **Premier Advisors/Direct Access FSP - Methods of Analysis**

HTIN relies on Envestnet for analysis, information, asset allocation strategies and the identification, selection and monitoring of Envestnet Managers. Envestnet is responsible for the selection of Managers and Strategists offered on the Premier Advisors and Direct Access platforms. Envestnet seeks Managers/Strategists with a variety of investment strategies available. Some strategies may be high-

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<sup>1</sup> The information contained in the fund list is from a third party source believed to be reliable. Please refer to each mutual fund and ETF's prospectus for the most current and complete information. All Information available through "Morningstar.com" is the property of Morningstar, Inc. or its Information Providers and is protected by copyright and intellectual property laws. All rights reserved.

risk strategies and such strategies are not intended for all clients. Clients who choose to follow high-risk strategies should know that there is a possibility of significant loss. Please review Envestnet's Form ADV Part 2A Appendix 1 for more information about its advisory business.

Managers/Strategists offered by Envestnet may be considered "Approved" or "Available", depending on the level of due diligence performed. "Approved Envestnet Managers/Strategists" are evaluated using data and information from several sources, including independent databases. Among the types of information analyzed are historical performance and volatility, and qualitative factors such as the Approved Envestnet Manager/Strategist and investment vehicle's reputation and approach to investing. Envestnet also reviews the Manager/Strategist Form ADV Part 2A and portfolio holding reports. To ensure accuracy, Envestnet attempts to verify all information by comparing it to publicly available sources.

In addition to Approved Managers/Strategist, Envestnet also makes available certain Managers/Strategist for which Envestnet has not performed Due Diligence. These Sub-Managers are categorized as "Available Sub-Managers" and Envestnet makes no recommendations concerning Available Sub-Managers. Your IAR will recommend and perform their own research on sub-managers and investment vehicles that it believes are most appropriate for your individual circumstances.

Envestnet uses a quantitative process that measures risk and return measures for each portfolio versus its investment style peers via a ranking methodology. This ranking methodology is updated each quarter for all third party separate account managers and strategists. The result of this review may result in the risk score being changed to a higher or lower risk. Envestnet will notify HTIN each quarter of these reviews. You and your adviser should review this information, and in certain cases where the risk score materially changes, updated paperwork may be required.

Before a manager/strategist is made available for the Premier Advisors/Direct Access FSP program, general research is conducted to determine eligibility. This may include, among other things, assets under management, inception date of strategy, manager tenure, investment style and performance factors. We may also review investment philosophy and process, trading practices, fundamental and quantitative statistics of the strategy. We may also conduct interviews with portfolio managers, principals and key staff members.

HTIN conducts annual review of Envestnet and Managers/Strategists. This review is based on applicable information gathered from various sources that may include, but are not limited to, disclosure documents, performance, assets under management and other applicable criteria. As a result of these reviews, HTIN may request that Envestnet take corrective action to address such concerns. From time to time, these reviews may also result in the removal of a Manager/Strategist being available to HTIN clients.

For additional information, please refer to Envestnet Asset Management's disclosure brochure.

## **Voting Client Proxies**

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

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

### **Information Provided to Envestnet**

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

## **Client Contact with Portfolio Managers**

Your IAR will be your primary point of contact for addressing any questions or concerns relating to your managed account. If you are enrolled in a program that employs an unaffiliated third party Investment Manager or Strategist, HTIN imposes no limitations on your ability to consult your Investment Manager(s) and/or Portfolio Strategist(s) directly, but you are encouraged to first contact your IAR.

## **Disciplinary Information**

Below is notice of certain regulatory and legal settlements entered into by HTIN and/or its affiliates:

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

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

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

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

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

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

In January 2012, SWST (now HTS) reached a settlement with FINRA after allegations were made that the firm bought or sold securities from customers at prices that were not considered fair given the current market conditions. The firm agreed to a censure, \$38,000 fine and \$19,655.36 restitution plus interest.

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

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

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

In June 2013, affiliate FSC reached a settlement agreement with FINRA for inaccurate options reporting to the OCC. Specifically, FSC failed to report a large options position report position with the correct effective date, failed to submit reportable positions to the Large Option Position Report (LOPR) on numerous occasions and failed to accurately report three accounts to LOPR that were under common

control or “Acting in Concern”. FINRA found that FSC failed to maintain a supervisory system, including written procedures which were reasonably designed to achieve compliance with rules governing the reporting of large option positions. The firm consented to a censure and fine in the amount of \$27,500.

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

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

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

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

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

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

In August 2015, an extended hearing panel decision was made to fine the SWSFS (now HTIN) \$50,000. The sanction was based on the findings that the firm’s Supervisory system and its procedures were not reasonably designed to achieve compliance with rules relating to the suitability review process for certain variable annuity transactions and the time for transmitting Variable Annuity Transactions to the issuer. The findings also stated that the firm failed to implement adequate surveillance procedures to monitor its representatives. The panel also stated in the decision that FINRA did not prove that the firm lacked policies and procedures reasonably designed to implement corrective measures to address inappropriate exchanges to the conduct associated with the persons that engaged in inappropriate states. Further the decision stated that FINRA did not provide that the firm’s principals who reviewed the transactions lacked reasonable basis to believe the transactions were suitable for the customers or that the firm failed to document adequate training policies for its principals who reviewed Variable Annuity Transactions.

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

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

In May 2016, HTS reached a settlement with FINRA for failing to provide appropriate disclosures to clients, at the time of trade, when the client was effecting a bond transaction for quantities below the required minimum denomination. While the firm had written



procedures in place which prohibited the sale of municipal securities to customers below the minimum denomination, subject to certain exceptions, it did not have any systems or controls in place to prohibit sales below the minimum denomination. The firm agreed to a censure and fine in the amount of \$40,000.

In November 2016, HTS reached a settlement with FINRA for failing to disclose the material aspects of its relationships with its execution venues as it pertains to “payment for order flow” arrangements. The firm is required to describe the material terms of the arrangements such as any amounts per share or per order that the firm receives. As a result of the firm’s failure to disclose the payment terms for these relationships, the firm violated SEC Rule 606 of Regulation NMS. The firm agreed to a censure, and a \$10,000 fine.

In April 2019, affiliate broker-dealer Hilltop Securities Inc. (HTS) reached a settlement with the CBOE/BZX exchange for failing to report reportable positions in expiring options, mistakenly deleting the positions in its large option position reporting system submissions that were set to expire on the following day or failing to report positions that the firm had added or modified on the expiration date. The firm agreed to a censure, and a \$37,500 fine.

In September 2019, affiliate broker-dealer Hilltop Securities Inc. (HTS), reached a settlement with FINRA for failing to establish procedures to ensure that customers received in writing the initial disclosure stating the annual rate or rates of margin interest that could be imposed prior to opening their margin account and failed to establish, maintain, and enforce a supervisory system designed to achieve compliance with Rule 10b-16(a)(1). As a result, Hilltop violated SEC Rule 10b-16(a)(1) and FINRA Rules 3110(a) and (b) and 2010. The firm agreed to a censure, and a \$250,000 fine.

In September 2019, Hilltop Securities (HTS) and Hilltop Securities Independent Network (HTIN), jointly and severally, paid disgorgement of \$736,497.48 and prejudgment interest of \$74,287.92 for a total of \$810,785.40. The U.S. Securities and Exchange Commission (SEC) brought numerous actions against investment advisers over the past several years that failed to make required disclosures or the disclosures made were not written in a clear enough manner, related to its selection of mutual fund share classes that paid certain fees, known as 12b-1 fees, to representatives when a lower cost share class was available for the same fund that did not make those payments. 12b-1 fees are sometimes also described as distribution and marketing fees, and are generally paid to brokerage firms for distribution and shareholder services. As a result of these actions and related findings, the SEC implemented the Share Class Selection Disclosure initiative to allow firms to self-report circumstances in which the disclosures do not meet the SEC’s requirements.

After conducting a review of its advisory business, HTS addressed this issue in January 2018 by enhancing its investment advisory programs to rebate to customers any 12b-1 fees paid by mutual funds held in managed accounts and by making disclosures regarding the 12b-1 payments.

Although HTS did make disclosures regarding mutual fund 12b-1 payments, without admitting or denying the findings in the order, the SEC has indicated that the disclosures were not clear enough for investors to make an informed decision regarding offered advisory services and payments.

As a result of the SEC’s decision regarding these fees and disclosures, without admitting or denying the findings, HTS accepted an offer from the SEC to settle this matter and agreed to the entry of an order which included HTS to return certain 12b-1 fees and interest charged to investors in managed accounts from January 2014 through January 2018.

In agreeing to participate in this initiative, HTS will not be subject to a regulatory fine by the SEC.

### **Related Items:**

<https://www.sec.gov/litigation/admin/2019/ia-5393.pdf>

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

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

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

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

HTIN through its affiliation with Southwest Insurance Agency (“SWIA”) and SWS Financial Insurance Agency, Inc. (“SWFIA”), will earn commission-based compensation for selling insurance type products, such as life, disability, long term-care insurance, and fixed and variable annuities. In addition, IARs may also be licensed and operate as insurance agents, and may receive commission-based compensation for the sale of these types of products. Insurance commissions earned by IARs from the sale of these products are separate and in addition to our advisory fees. Therefore, the sale of insurance and annuity products presents a conflict of interest because IARs who are also insurance agents may have an incentive to recommend insurance and annuity products to you for the purpose of generating commissions. You are under no obligation to purchase products or services recommended by HTIN or its IARs in connection with any advisory service that we offer.

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

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

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

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

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

You may obtain information about your IAR, their licenses, educational background, employment history, and if they have had any disciplinary issues or received serious complaints from investors through the FINRA BrokerCheck service available from FINRA at <http://www.finra.org>, or from the Securities and Exchange Commission at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

In addition, some of our IARs hold educational credentials, such as the Certified Financial Planner™ (CFP®) designation. Holding a professional designation typically indicates that the IAR has completed certain courses or continuing education. However, an IAR's professional designation does not change the obligations of HTIN or the IAR in providing investment advisory or brokerage services you.

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

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

## **Review of Accounts**

Program Services include periodic reviews and monitoring of your account by your IAR. In addition, monthly and/or quarterly reviews are conducted by the Advisory Services Group (“ASG”). For Clients of IARs registered through HTIN, trading activity is reviewed on a daily basis by the Office of Supervisory Jurisdiction (OSJ), or designee assigned to the IAR. Other reviews, as deemed appropriate,

may be conducted by ASG, the OSJ or OSJ designee. IARs conduct reviews on at least an annual basis, which can provide an opportunity for you to update HTIN with any material changes in your financial condition and/or investment constraints.

### **Client Reports**

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

### **Clients Referrals and Other Compensation**

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

### **Brokerage Practices – Best Execution**

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

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

HTIN renders investment advice to its clients on a nondiscretionary and discretionary basis, pursuant to client's advisory agreement. In HTIN's advisory programs you will generally appoint HTS as sole and exclusive broker for execution transactions, this relationship is referred to as directed brokerage. HTS will also be a clearing firm and custodian of your account. Through directed brokerage, HTS may have benefits where it requires a client to utilize the services of an affiliated broker/custodian. The directed brokerage relationship can create a conflict of interest as programs implemented through the affiliated broker-dealers may pay commissions and/or transaction charges that are higher or lower than at other broker-dealers. By using HTS as the broker-dealer, you may not always receive best execution on account transactions, which may cost you more money. This directed brokerage agreement is reflected in your advisory agreement. Not all investment advisers who are dually registered as broker-dealers or who have affiliated broker-dealers require their clients to use the adviser's broker-dealer to execute transactions.

Securities transactions in client accounts participating in the HTIN Programs are generally effected on a "net" basis (i.e. without commissions), and a portion of the fee is generally paid for advisory services provided. Clients will generally pay an asset-based fee for the brokerage/custody/clearing services provided by HTS as the broker/custodian (as opposed to transaction-based fees such as commissions), and those fees are generally included in the Program Fee for a client. To the extent that such fees are not included in the Program Fee, the client will be so informed in writing. Please refer to Fees and Compensation section for details regarding fee arrangements.

HTIN receives no soft-dollar compensation.

### **Order Aggregation and Block Orders**

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

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

the client. In such cases, each account will be charged with the average price per unit, and where applicable, with brokerage costs and other fees.

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

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

## **Portfolio Managers and Strategist Trade Rotation**

Portfolio Managers and Strategists participating in the Premier Advisors and Direct Access Programs typically participate in other wrap fee programs sponsored by other Advisory/broker-dealers, institutional accounts and even advise on mutual funds. When a Manager/Strategist directs a transaction (buy/sale) for a security for all accounts within a particular strategy, the Manager/Strategist may have to possibly direct similar transactions through a substantial number of firms. In this case the Manager/Strategists may employ a trade rotation process. This occurs when a group of clients may have a transaction executed before or after another group of the Manager/Strategist’s clients in other wrap fee programs. This trade rotation seeks to limit the potential market impact of the transaction. The trade rotation process may result in Hilltop clients being the first accounts in which a trade is aggregated and executed. Once completed, the Manager/Strategist will “rotate” to the next set of clients or firm in the rotation; it is expected that Hilltop clients will eventually be last in the rotation. The rotation process is developed and administered at the Manager/Strategist’s sole discretion. The selection process is generally random and is intended to create a fair way allocate transactions to all participants. Over time, each group of participants should expect to receive executions at the beginning, middle and the end of the rotation. This may result in transactions being executed in their account near or at the end of the rotation. There may be a market price impact on trades executed later versus trades executed earlier in the rotation. Typically the trade rotation process is also used to enable the Manager/Strategists to meet their best execution obligations. This can result in some of the Manager/Strategists to decide to employ a trade rotation process for all securities in their portfolio and trade only through the respective firm’s sponsoring the wrap fee programs, while others may choose to employ a rotation process that includes making a determination to trade away from the sponsors frequently or on a majority basis. For additional information regarding each Manager/Strategist’s trade rotation, please refer to the specific Manager/Strategist’s Form ADV Part 2A.

Due to this rotation Hilltop may not be able to process the trades on the same day that we receive notice as we may be limited by time due to market closing and receiving the trade late in the day. Best efforts are made to execute trades same day, but in some cases it may be the next business day that the markets are open.

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

### **Code of Ethics**

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

Our Code of Ethics is comprehensive and is designed to help us detect and prevent violations of securities laws and to help ensure that we keep your interests first at all times. We distribute our Code of Ethics to each supervised person at HTIN at the time of his or her initial affiliation with HTIN; we make sure it remains available to each supervised person for as long as he or she remains associated with HTIN; and we ensure that updates to our Code of Ethics are communicated to each supervised person as changes are made. Our Code of Ethics asserts that all supervised persons have a fiduciary responsibility to clients and they must always adhere to federal

securities laws. The Code also covers client confidentiality, gifts, undue influence in personal securities transactions and use of client or company assets to benefit one personally. Additionally, the Code mandates monitoring, review, reporting and sanctions for violations of the Code of Ethics. HTIN will provide a copy of the Code of Ethics to any client or prospective client upon request.

### **Participation or Interest in Client Transactions and Principal Trades**

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

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

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

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

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

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

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

### **Personal Trading**

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

### **Custody and Valuation**

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

## **Investment Discretion**

In the Premier Advisors Program, you authorize and direct the platform manager to delegate discretionary authority to each manager selected. For Partner Discretion accounts, you delegate discretionary trading authority to your IAR. The Direct Access Program is a discretionary program where the FSP determines the asset allocation and direct trades HTIN.

## **Investment Policy Statements**

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

## **Financial Information**

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