



Hilltop Securities Inc. Managed Accounts  
Client Disclosure Brochure  
*Part 2A of Form ADV: Firm Brochure*

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CRD: 6220

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This brochure provides information about the qualifications and business practices of Hilltop Securities Inc. If you have any questions about the contents of this brochure, please contact us at 214-859-6735 or [FormADV2@hilltopsecurities.com](mailto:FormADV2@hilltopsecurities.com).

This information has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. Additional information about Hilltop Securities Inc. is available on the Securities and Exchange Commission's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You may search the website by our unique identifying number, known as an IA number. The IA number for Hilltop Securities is 801-55529. Registration does not imply a certain level of skill or training.

# Summary of Material Changes

*Updated March 31, 2021*

This Brochure has been updated with the following material Changes that have occurred since the last Client Disclosure Brochure update on March 31, 2020.

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 and charged to your account as of the date you deposit the additional assets, 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.*

***The following disclosures have been added in the Disciplinary Disclosures section of this brochure.***

In September 2019, Hilltop Securities (HTS) and Momentum Independent Network (MIN), 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 June 2020, HTS reached a settlement with FINRA for failure to establish and implement an anti-money laundering ("AML") compliance program that was reasonably designed to detect and report suspicious trading activity in low-priced securities. FINRA alleged that HTS failed to conduct reasonable reviews of low-priced securities activity for the purposes of determining if a Suspicious Activity Report should be filed. The same settlement agreement also applied to the Firm's failure to submit required regulatory filings to the MSRB's EMMA system and G-17 disclosure letters to issuers in connection with primary offerings of municipal securities. HTS agreed to a \$475,000.00 fine (\$375,000 for AML and \$100,000 for the municipal offerings), censure and to retain an independent consultant to conduct a review of the reasonableness of its policies, systems and procedures related to the AML matter.

HTS has arrangements with sweep money market mutual funds to receive compensation, in the form of Rule 12b-1 fees and shareholder servicing fees, based on assets invested in their respective money market funds. This compensation is not shared with the HTS investment adviser representative. HTS utilizes both Dreyfus and Federated money market funds to sweep cash balances from customer accounts. For the Dreyfus money market funds, HTS uses the "Wealth" share class which do not include 12b-1 fees but do include shareholder servicing fees and are more expensive than other share classes of those same funds that are available to advisory customers. In the case of Federated money market funds, HTS uses CS and CII shares that pay HTS Rule 12b-1 and shareholder

servicing fees, and are more expensive than other share classes of those same funds that are available to advisory customers. Specifically, the Federated Government Obligation, Municipal Obligations and Prime Cash Obligations Funds pay HTS 12b-1 fees in addition to shareholder servicing fees. HTS does use in its sweep program, other money market funds that do not provide Rule 12b-1 fees. Both the use of higher-cost share classes of money market funds than are otherwise available to the customer, and the use of money market mutual funds that pay Rule 12b-1 fees and shareholder servicing fees instead of other money market funds that do not pay these fees, are conflicts of interest on the part of HTS. Certain money market funds pay us a distribution fee that increases when more of our clients' funds are invested in the money market fund. As a result, we have an incentive to recommend only those sweep money market funds that pay us distribution fees over those that do not, although our financial professionals do not share in those fees. 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 HTS's Customer Information Brochure. Any sweep compensation is in addition to any Program fees. HTS offers other money market mutual funds (and other share classes) to customers on a position-traded basis, that is to say, by having the customer's IAR place individual buy or sell orders for those funds, not on an automated sweep basis. Some of these position-traded money market mutual funds offer higher yields to customers than the sweep money market mutual funds, and pay lower or no fees to HTS. HTS has a conflict of interest with respect to the decision whether to allow customer cash balances to be swept automatically to its sweep money market funds, or to be position-traded into other money market funds that are higher-yielding to customers but pay lower or no fees to HTS. HTS also has a conflict of interest with respect to all of the sweep options because the revenue it earns from those sweep options give it an incentive to increase the amount of a client's assets allocated to cash as compared to other assets.

You may request a copy of our current Client Firm Disclosure Brochure at any time, without charge, by calling Hilltop Securities 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 Inc. a Delaware corporation (“HTS”, “us”, or “we”), is a full service broker-dealer and Registered Investment Adviser, serving the investment and capital needs of individual, corporate and institutional clients, banking and thrift clients, and qualified accounts (“Client”, “Clients”, or “you”). HTS is a wholly owned subsidiary of Hilltop Securities Holdings LLC.

HTS, as a full-service broker-dealer, provides brokerage, execution, clearing, and custody services to its Clients. It is registered with the United States Securities and Exchange Commission (“SEC”) pursuant to the Securities Exchange Act of 1934, a member of the New York Stock Exchange (“NYSE”), the American Stock Exchange, the Financial Industry Regulatory Authority (“FINRA”), and the Securities Investor Protection Corporation (“SIPC”). HTS is also an Investment Adviser registered with the SEC pursuant to the Investment Advisers Act of 1940. As an Investment Adviser, HTS completes a Form ADV which contains additional information about its business and affiliates. The Form ADV and additional information is available through public filings with the SEC at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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 a fee-based or commission-based relationship.

Each HTS managed account is assigned to an Investment Adviser Representative (“IAR”). Any IAR of HTS who provides investment advice for a fee is required to meet the appropriate states’ regulatory requirements which may include an administered examination or an approved designation in lieu of an exam. Registration of an Investment Adviser does not indicate a higher level of skill or training.

As of December 31, 2020, HTS has \$1,792,889,823 assets under management, \$502,833,474 on a discretionary basis and \$1,290,056,349 on a non-discretionary basis.

## Financial Planning/ Consulting Services

HTS provides financial planning services. Financial planning is an investment advisory service that creates a fiduciary relationship. This means that we must place the interests of the client above our own or those of our advisors. This disclosure document explains your rights and our obligations in providing you with your financial plan. Financial planning is a comprehensive evaluation of a client’s current and future financial state by using currently known variables to predict future cash flows, asset values and withdrawal plans. Through the financial planning process, all questions, information and analyses are considered as they impact and are impacted by the entire financial and life situation of the client. Clients purchasing this service will receive a written report (“Financial Plan”) which provides the client with a detailed financial plan designed to assist the client in pursuing their financial goals and objectives.

In general, the Financial Plan can address any or all of the following areas:

**PERSONAL:** We review family records, budgeting, personal liability, estate information and financial goals.

**TAX & CASH FLOW:** We analyze the client’s income tax and spending and planning for past, current and future years; then illustrate the impact of various investments on the client's current income tax and future tax liability.

**INVESTMENTS:** We analyze investment alternatives and their effect on the client's portfolio. Hilltop Securities does not include market timing or other product transfer timing advice.

**INSURANCE:** We review existing policies to ensure proper coverage for life, health, disability, long-term care, liability, home and automobile.

**RETIREMENT:** We analyze current strategies and investment plans to help the client achieve his or her retirement goals.

**DEATH & DISABILITY:** We review the client’s cash needs at death, income needs of surviving dependents, estate planning and disability income.

**ESTATE:** We assist the client in assessing and developing long-term strategies, including as appropriate, living trusts, wills, review estate tax, powers of attorney, asset protection plans, nursing homes, Medicaid and elder law.

**BUSINESS FINANCIAL PLANNING:** We analyze the needs of a business owner, which includes business cash flow, valuation, tax planning, benefits planning, and transition planning.

We gather required information through in-depth personal interviews. Information gathered includes the client's current financial status, tax status, future goals, returns objectives and attitudes towards risk. We carefully review documents supplied by the client, including a questionnaire completed by the client, and prepare a written report. The Financial Plan might not address all financial issues that impact the client for a number of reasons (e.g. insufficient data provided, out of scope of specific plan covered in agreement), and such an omission does not imply that the excluded topic is not applicable to the client's financial situation.

Should the client choose to implement the recommendations contained in the plan, we suggest the client work closely with his/her attorney, accountant, insurance agent, and/or financial adviser. Implementation of the Financial Plan recommendations is entirely at the client's discretion. Financial planning services do not involve the active management of client accounts or the implementation of specific transactions on the client's behalf by the advisor. Implementation of specific transactions on the client's behalf by the advisor would require a separate agreement and fees, which would vary based on the arrangement selected (e.g. fee-based managed accounts, commissioned brokerage).

The client should review the written recommendations that he or she receives, to ensure that they accurately reflect the client's data as provided and financial objectives. The appropriateness of our recommendations is dependent upon the accuracy of information provided by the client.

Financial planning recommendations are not limited to any specific product or service offered by a broker-dealer or insurance company. All recommendations are of a generic nature.

Clients can also receive investment advice on a more focused basis. This would include advice on only an isolated area(s) of concern such as estate planning, retirement planning, or any other specific topic. We also provide specific consultation and administrative services regarding investment and financial concerns of the client.

Consulting recommendations are not limited to any specific product or service offered by a broker-dealer or insurance company. All recommendations are of a generic nature.

## **Financial Planning/Consulting Fees and Compensation**

HTS' financial planning/consulting fee is determined based on the nature of the services being provided and the complexity of each client's circumstances. All fees are agreed upon prior to entering into a contract with any client. Fee arrangements can be charged in a variety of options determined by you and your HTS advisor.

Our financial planning fees are calculated on either an hourly basis or a fixed annual fee basis.

1. Financial planning/Consulting fees are calculated and charged on an hourly basis and range from \$250 to \$500 per hour. Although the length of time it will take to provide a Financial Plan will depend on each client's personal situation, we will provide an estimate for the total hours at the start of the advisory relationship. Up to half of estimated payment will be charged upon completion of our initial fact-finding session with the client as a retainer, with the remainder of fees based on actual hours accrued paid upon completion of the plan.
2. Financial Planning/Consulting fees will be calculated and charged on a fixed fee basis and will vary on a variety of factors including the scope of services provided, complexity of the process, types of issues addressed and the frequency of the engagement.

Fees for development of a new financial plan vary from fees to update an established financial plan.

Financial planning fees described above do not include the fees you incur for additional professionals (e.g. accountant, personal attorney) in connection with the financial planning process.

If a Financial Planning/Consulting client executes recommended securities transactions through associated persons of our firm in their separate capacities as registered representatives of a broker dealer, these individuals will earn commissions which are separate and distinct from fees charged for Financial Planning/Consulting. Commissions cannot be credited towards future advisory fees.

HTS reserves the discretion to reduce or waive the hourly fee and/or the minimum fixed fee if a financial planning client chooses to engage us for our Portfolio Management Services.

## **Fee-Based Retirement Plan Advisory Services**

HTS offers Fee-Based Retirement Plan Advisory Services (“RPAS” or “Retirement Plan Advisory Services”) for plans where participants are allowed exercise independent control over the investment of their individual accounts (“Participant-Directed Plans”) and to other plans, such as defined benefit and defined contribution plans that do not allow participants to exercise control over plan investments (“Pooled Plans”).

The RPAS program is offered to retirement plan sponsors. In return for a fee, which can be flat, or asset based, HTS will provide administrative and educational services to the plan sponsor and to plan participants. The administrative services include services such as assisting potential plan participants in enrolling in the retirement plan and offering technical support to plan participants in accessing their balances, designating or changing beneficiaries, updating personal contact information, changing or refreshing passwords, and other similar administrative support tasks. The educational services include providing in-person or online based training or providing printed materials relating to the importance of retirement savings, the benefits of asset allocation, understanding mutual fund and exchange-traded funds fees and expenses, and other similar general educational topics relating to investing. The precise administrative and educational services provided to each plan sponsor are subject to negotiation and customization with that plan sponsor, depending on the needs of that plan sponsor. The Fee-Based RPAS program will not provide individualized investment advice, either to plan sponsors (concerning potential investment alternatives within their 401(k) plans) or to plan participants (concerning their individual asset allocations or investment alternatives within or outside the plans). As a result, HTS will not serve as a fiduciary under the Employee Retirement Income Security Act of 1974, as amended (“ERISA”) with respect to plan sponsors or plan participants in the Fee-Based RPAS program.

It is your decision to participate in this program. You and your Investment Adviser should discuss whether this program is appropriate for your investment goals or needs. If you choose to participate in the program, you will enter into a written HTS Plan Services Agreement (the “Agreement”) between you, as the responsible plan fiduciary for the retirement plan, and HTS. You will also enter into an agreement with an HTS approved platform provider for the retirement plan (the “Plan Service Provider”).

### **Educational Services to Participant-Directed Plans**

When we provide educational services to Client and/or retirement plan participants in Participant-Directed Plans, we are not acting as a fiduciary of the retirement plan under ERISA.

#### **Education of Client**

Hilltop Securities will provide education regarding different plan types and work with the Plan Service Provider to assist with retirement plan set-up. Hilltop Securities can provide information on the role of a Third-Party Administrator (“TPA”) to Participant-Directed Plans as well as information about the core services a TPA should provide and other factors in order to assist Client in the consideration of a TPA. Hilltop Securities will not provide recommendations for specific TPAs for Plans. Client is responsible for selecting the TPA for the Plan.

#### **Education of Plan Participants (Participant-Directed Plans only)**

Hilltop Securities will assist Client with developing an education plan for Plan participants. Upon request, Hilltop Securities will conduct Plan participant education meetings, including but not limited to enrollment meetings, explaining general financial and investment information, including risk tolerance and asset allocation; general retirement planning topics, such as inflation risk and longevity risk; and how each retirement plan investment maps to an asset class.

Hilltop Securities can participate in one-on-one educational meetings with retirement plan participants, in which our IARs provide information and materials that describe the available retirement plan investments. IARs will educate retirement plan participants upon request about asset allocation, in which a portion or percentage of investments will be invested in various asset classes based on the plan participant’s portfolio objective and risk tolerance (“Asset Allocation”). Asset Allocation cannot eliminate risk associated with investing, but it can help to keep a retirement plan participant’s account within a stated risk tolerance range. IARs will provide investment materials, such as questionnaires, worksheets, software or similar materials to assist retirement plan participants with the estimation of future retirement needs.

### **Educational Services to Pooled Plans**

When we provide educational services to Pooled Plans, we are not acting as a fiduciary of the retirement plan under ERISA.

Hilltop Securities will provide education on plan types and work with the Plan Service Provider to assist with retirement plan setup. Hilltop Securities will provide information on the role of TPAs to Pooled Plans as well as information about the core services a TPA should provide and other factors in order to assist Client in the consideration of a TPA. Hilltop Securities will not provide recommendations for specific TPAs for retirement plans. Client is responsible for selecting the TPA for the retirement plan.

### Fee-Based 401(k) Program Fees

The fees for the Fee-Based 401(k) Program are subject to negotiation, based on the level of services requested by plan sponsor and other factors such as the size and complexity of the 401(k) plan.

| Option 1 Fee Schedule              |                         | Option 2 Fee Schedule              |                         |
|------------------------------------|-------------------------|------------------------------------|-------------------------|
| Included Plan Assets               | Maximum Annual Flat Fee | Included Plan Assets               | Maximum Annual Fee Rate |
| Up to \$3 Million                  | \$22,500                | Up to \$3 Million                  | 75 bps                  |
| Over \$3 million to \$6 Million    | \$36,000                | Over \$3 million to \$6 Million    | 60 bps                  |
| Over \$6 Million to \$10 Million   | \$50,000                | Over \$6 Million to \$10 Million   | 50 bps                  |
| Over \$10 Million to \$20 Million  | \$60,000                | Over \$10 Million to \$20 Million  | 30 bps                  |
| Over \$20 Million to \$ 50 Million | \$100,000               | Over \$20 Million to \$ 50 Million | 20 bps                  |
| Over \$50 Million                  | Negotiable              | Over \$50 Million                  | Negotiable              |
| Option 3 Fee Schedule              |                         |                                    |                         |
| Included Plan Assets               | Maximum Annual Fee Rate |                                    |                         |
| Up to \$3 Million                  | 75 bps                  |                                    |                         |
| Over \$3 million to \$6 Million    | 60 bps                  |                                    |                         |
| Over \$6 Million to \$10 Million   | 50 bps                  |                                    |                         |
| Over \$10 Million to \$20 Million  | 30 bps                  |                                    |                         |
| Over \$20 Million to \$ 50 Million | 20 bps                  |                                    |                         |
| Over \$50 Million                  | Negotiable              |                                    |                         |

The Retirement Plan Advisory Services Fee is discounted or reduced at the sole discretion of Hilltop Securities. Hilltop Securities' ability to discount or reduce the fee for clients can result in one Client paying more or less than another Client receiving the same Retirement Plan Advisory Services.

### How the Retirement Plan Advisory Services Fee is Calculated and Paid

Hilltop Securities will rely on the Plan Service Provider to calculate and process the fee. Hilltop Securities does not review or verify the valuation information provided to us. Fees for Fee-Based RPAS are typically deducted by the associated record keeper or paid directly by the plan sponsor.

Fees may be billed quarterly in advance or arrears. The amount will be based upon the total market value of the retirement plan as of the last business of the quarter. The amount payable each quarter will be 25% of the annual fee. If the retirement plan is established or terminated during the quarter, the fee for that quarter will be prorated to cover only the period for which the retirement plan was serviced through the Plan Service Provider.

### Other Compensation

Neither Hilltop Securities, its Investment Adviser nor any affiliate reasonably expects to receive any other compensation, direct or indirect, in connection with Retirement Plan Advisory Services. If Hilltop Securities receives any other compensation for such services (such as Rule 12b-1 fees or shareholder accounting revenue), Hilltop Securities will return such compensation to the retirement plan.

The Plan Sponsor or the Plan Service Provider will be responsible for the decision on whether fees paid to Client from retirement plan investments (such as Rule 12b-1 fees or shareholder accounting revenue) and held as retirement plan assets will be used to pay retirement plan expenses.

**Rule 12b-1 Fees:** Certain mutual fund companies or their affiliates pay Rule 12b-1 fees to the Plan Service Provider for distribution and marketing expenses with respect to fund investments held in the retirement plan. The individual or entity functioning as the investment fiduciary for the retirement plan ("Investment Fiduciary") or Client can direct the Plan Service Provider to pay an amount equal to the Rule 12b-1 fees received by the Plan Service Provider to pay all or a portion of the Retirement Plan Advisory Services Fee.

**Shareholder Accounting Revenue:** Certain mutual fund companies pay shareholder accounting revenue to the Plan Service Provider for account record-keeping and administrative services provided by the Plan Service Provider with respect to fund investments held in the Plan. The Investment Fiduciary or Client can direct the Plan Service Provider to pay an amount equal to the shareholding accounting revenue received by the Plan Service Provider to pay all or a portion of the Retirement Plan Advisory Services Fee.



**Additional Fees and Expenses Paid to Plan Service Providers and Investment Fiduciaries**

Each Plan Service Provider and Investment Fiduciary will charge the retirement plan fees and possibly expenses for their services. Please consult your agreement with your Plan Service Provider and your agreement with your Investment Fiduciary for more information. These fees are in addition to the Retirement Plan Advisory Services Fee described above and vary depending on the particular Plan Service Provider and Investment Fiduciary.

**Internal Fees and Expenses of Investment Options**

Mutual funds have internal management fees and ongoing expenses for operating the fund (internal fees and expenses) that are deducted from the fund's assets, which has the effect of reducing the fund's net-asset value. Many funds have different share classes with different fees and expenses. The prospectus for each mutual fund will describe the internal fees and expenses.

Stable value funds and CIFs similarly have internal management fees and ongoing expenses for operating the fund. Internal fees and expenses are in addition to the Retirement Plan Advisory Services Fee described above and vary depending on the particular investment. Any internal fees and expenses charged by an investment will affect the investment performance of retirement plan investments.

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

This section does not apply to Hilltop Securities.

**Brokerage Practices**

Hilltop Securities will not execute trades for Clients participating in Retirement Plan Advisory Services. Generally, the Plan Service Provider will provide trade execution services for the retirement plan for a fee.

**Review of Accounts**

Your Investment Adviser should perform periodic reviews with you as the Plan Sponsor of a Participant-Directed Plan, which should include reviews of the following: the Plan Service Provider and Investment Fiduciary and fees charged by each party, retirement plan participation, contributions and demographics.

Your Investment Adviser should perform periodic reviews with you as the Plan Sponsor of a Pooled Plan, which should include reviews of the following: the Plan Service Provider and Investment Fiduciary and fees charged by each party, Plan contributions and demographics.

**Custody**

Hilltop Securities will not provide custody services in connection with Retirement Plan Advisory Services. Generally, the Plan Service Provider will provide custody services for a fee.

**Investment Discretion**

Hilltop Securities has no discretion over the investment of retirement plan assets or to interpret the retirement plan documents, to determine eligibility or participation under the Plan, or to take any other action with respect to the management, administration or any other aspect of the retirement plan.

Hilltop Securities does not provide legal or tax advice. You should consult with your legal or tax professional before participating in Retirement Plan Advisory Services.

You or Hilltop Securities has the discretion to terminate your participation in Retirement Plan Advisory Services at any time with written notice. If you terminate your contractual relationship with the Plan Service Provider or Investment Fiduciary without selecting and entering into an agreement with an appropriate replacement Plan Service Provider or Investment Fiduciary, Hilltop Securities will terminate your Agreement. If you or Hilltop Securities terminate your participation in Retirement Plan Advisory Services, the Plan will be charged the Retirement Plan Advisory Services fee through the date of termination.

**Investment Advisory Services/Portfolio Management**

HTS sponsors a number of Programs that are designed to help clients meet their investment objectives and goals. The accounts managed by HTS are generally not intended to provide you with a complete investment program as HTS expects that the assets it manages for you do not represent the entire value of your investment portfolio. 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. By reviewing your RTQ and recommending a specific advisory platform, your IAR 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. In some cases, these Programs cost you more or less than purchasing the services separately. You should be aware that commissions or Program fees charged in some cases are higher 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 advisory services provided.

Some of the Programs also are made available to affiliates of HTS or certain fully disclosed firms that clear their transactions through HTS (“Correspondents”).

Services provided as part of the wrap fee for advisory accounts include, but not limited to:

- Access to an IAR for personal service and financial advice;
- Review of suitability 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;

**For additional information please refer to the HTS Wrap Fee Program Brochure.**

If you hold qualified accounts in the Programs such as IRA or other tax advantaged types, please note that you must carefully monitor your contributions to prevent them from inadvertently exceeding federal limits.

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

HTS Advisory Programs and services are available through 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 Separately Managed Accounts (“SMA”), Unified Managed Accounts (“UMA”) and Direct Access – Fund Strategist Portfolio (“FSP’s”) and Compass UMA programs. The services from Envestnet include:

- Providing access to a variety of SMA, UMA and FSP strategies and Risk Based Asset Allocation models available for HTS programs
- Portfolio trading as directed by Envestnet and or Envestnet Manager
- Providing billing for all HTS 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 can 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 is an investment advisory program which enables your IAR to provide investment advice through an account with access to a wide spectrum of investment choices to help achieve portfolio diversification, all for a single fee. 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 that is tailored to your individual needs.

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

### **Partner Program Fees**

Fees for the Partner Program are offered on a wrap fee basis, covering all of HTS’s execution, consulting and custodial services. Additional fees may be charged by HTS for certain administrative actions such as wire transfers. The maximum Partner Program fee schedule, shown in the table below, is based on the total account value and is negotiable. The fee schedule is not applied

incrementally; the corresponding rate is applied to the entire total account value in the determination of the fee. The fee does not cover the fees and expenses of any underlying exchange traded funds (“ETFs”), closed-end funds, mutual funds, unit investment trusts (“UITs”) or exchange traded notes (“ETNs”). The fee is 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. Your Program fee will not be adjusted for no or low trading activity.

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

If you make any single deposit or any single withdrawal of \$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 and charged to your account as of the date you deposit the additional assets or you will receive a pro-rated adjustment or refund of any prepaid fee as of the date of withdrawal.

### **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 of your IAR to you. Unsolicited transactions are made when you direct the trades without advice or counsel from your IAR. For these unsolicited transactions, 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. In these situations, HTS has the right to terminate 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 can 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 when calculating your advisory fee. If you continue to hold the asset in your account, it will continue to be part of the calculation during each fee cycle.

### **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 subject to removal from the Program.

### **Advantage**

The Advantage Program is a non-discretionary Mutual Fund/ Exchange Traded Fund portfolio advisory program sponsored and administered by HTS. The asset allocation model includes a variety of asset types that, together, offer appropriate diversification to accommodate each investment objective. Where appropriate, multiple funds can be selected for a style in order to provide additional portfolio diversification.

The service begins with a consultation between you and the IAR to review your investment objectives, financial circumstances and risk tolerance(s). 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 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 HTS, 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, risk tolerance or investment objectives.

Unless directed otherwise by you, the Client, Advantage 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 trigger a further review of the individual portfolio. The review can 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 can elect to decline rebalancing of the account. If you decline rebalancing, your asset allocations will likely deviate from your initial allocations and from the risk/return objectives stated in your Client Profile. In that circumstance, it is recommended that you and your IAR create your own rebalance methodology.

### **Advantage Program Fees**

Fees for the Advantage Program are offered on a wrap fee basis, covering all of our execution, consulting and custodial services. Additional fees may be charged by HTS for certain administrative actions such as wire transfers. The maximum Advantage fee schedule, shown in the table below, is based on total account value and is negotiable. The fee schedule is not applied incrementally; the corresponding rate is applied to the entire account value for the purpose of determining the fee rate. The fees do not cover the fees and expenses of any underlying ETFs or mutual funds. The fee is calculated using the market value of the account on the last day of the preceding quarter. The fee is charged to the account each calendar quarter, on a pro-rated quarterly basis and is billed in advance. Your program fee will not be adjusted for no or low trading activity.

| <b>Total Account Value</b> | <b>Maximum Annualized Fee</b> |
|----------------------------|-------------------------------|
| 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 deposited or withdrawn assets. The pro-rated amount will be due and charged to your account as of the date you deposit the additional assets or you will receive a pro-rated adjustment or refund of any prepaid fee as of the date of withdrawal.

For Clients of Correspondents, HTS will charge the Correspondent 10 to 30 basis points (“bps”) per year to make the Advantage Program available.

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

The following provisions apply to an employee benefit plan or account subject to Title I Part 4 of 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 HTS, 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, HTS relies 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 are required to provide HTS with certain requested information or acknowledgements as necessary to comply with the conditions or such exemptions. None of HTS, 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 HTS, its IARs, Correspondents, Correspondent IARs, and their affiliates, the reasonableness of the overall fees charged for such services, and the effect of any conflicts of interest.

With respect to any service fees and sweep compensation that is payable to HTS, 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 HTS, 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") that 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 is 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, HTS 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 are selected for these Programs employ different methods of analysis that are described in each managers' disclosure brochure.

A UMA is a discretionary program that provides you access to combine a broad selection of ASG programs including a Partner Discretion sleeve, investment managers and fund strategists 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 making the selection of the investment managers/fund strategists and changes made to the UMA portfolio and are ultimately responsible for the selection of the appropriate asset allocation and underlying 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 are 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.

HTS also provides you with monitoring and on demand reporting of portfolio performance on a periodic basis for your Premier Advisors account.

## **Premier Advisors Program Fees**

The Premier Advisors Program charges an annual fee, out of which HTS pays for all portfolio management and administration, including Envestnet, Envestnet Manager Fees, and fees payable to the Sponsor, IARs, Co-Advisers, and Co-Adviser IARs, as well as costs for transaction execution, clearing, custody and reporting. Additional fees may be charged by HTS for certain administrative actions such as wire transfers. The sub-manager's fee will generally fall within a range of 0.15% to 0.75% (annual rate) of assets under management.

The fee payable to HTS, as the Sponsor, will generally fall within a range of 0.10% to 0.38% (annual rate) of assets under management. The program fee will not be adjusted if the manager trades away from HTS.

Where applicable, HTS also pays the IAR (or if applicable Co-Adviser) a portion of the fee for providing advisory services to Clients introduced to the Premier Advisors Program by the IAR or Co-Adviser. The fee payable to the IAR or Co-Adviser will generally fall within a range of 0.50% to 1.75% (annual rate) of assets under management.

The level of fee 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. Clients could receive comparable services from other sources for fees that are lower than those charged by HTS.

The maximum fee schedule for the Premier Advisors Program services is set forth below and is negotiable in individual cases:

| <b>Total Account Value</b> | <b>Maximum Annualized Fee for Equity/Balanced SMA Portfolios</b> | <b>Maximum Annualized Fee for Fixed Income SMA Portfolios</b> | <b>Maximum Annualized Fee for UMA account</b> |
|----------------------------|--|---|---|
| First \$ 250,000           | 2.90 – 3.00%   | 1.55 – 1.65%  | 2.35%   |
| Next \$ 250,000            | 2.40 – 2.50%   | 1.40 – 1.50%  | 2.30%   |
| Next \$ 500,000            | 2.15 – 2.25%   | 1.25 – 1.35%  | 2.10%   |
| Next \$ 4,000,000          | 1.90 – 2.00%   | 1.05 – 1.15%  | 1.90%   |
| Over \$ 5,000,000          | 1.75 – 1.85%   | 0.90 – 1.00%  | 1.70%   |

*\* The total fee actually charged to Clients' accounts will vary depending upon the selection of sub-managers and allocation of total portfolio assets thereto, the total amount of portfolio assets in the Premier Advisors Program and other factors.*

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

If you make any 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 deposited or withdrawn. The pro-rated amount will be due and charged to your account on the date you deposit the additional assets, or you will receive a pro-rated adjustment of refund of any prepaid fee.

#### **Direct Access – Fund Strategist 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 (these approaches are referred to below as the “Strategy” or “Strategies”). Your IAR will assist you in selecting one or more FSPs from a roster based on your financial situation, investment objectives and risk tolerance. HTS also provides you with monitoring and on demand reporting of portfolio performance on a periodic 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 can change the Money Managers for the “funds” and/or the allocation of assets of the “funds” to the various Money Managers. At HTS’s discretion, HTS 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 Manager/Strategist who is terminated from the Direct Access Program without prior notice to you. Factors involved in our decision to remove a Manager/Strategist 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 Manager/Strategists on our roster. HTS will determine whether any or all of these factors are material when deciding whether to recommend termination. You can elect to remove a Manager/Strategist from your account at any time.

Information HTS collects regarding any Manager/Strategist, 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 Manager/Strategists 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 Manager/Strategist directly to us or through the consulting service we use.

Direct Access is available through HTS and its IARs. HTS can 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.

### **Direct Access Program Fees**

Fees for the Direct Access Program are offered on a wrap fee basis, covering execution, consulting and custodial service as well as fees for services for each Investment Manager/Third Party Strategist. Additional fees may be charged by HTS for certain administrative actions such as wire transfers. The maximum Direct Access fee schedule, shown in the table below, is based on total account value (“Account Value”) and is negotiable. The fee schedule is not applied incrementally; the corresponding rate is applied to the entire Account Value for the purpose of determining the fee rate. The fees do not cover the fees and expenses of any underlying investments used by the appointed Investment Manager. The fee is 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.

HTS compensates Managers/Strategists from 0.15% to .60% annually based on total aggregate Client dollars with each Manager/Strategist. In some cases, the manager/strategists are compensated directly from the operating expenses of the underlying proprietary funds that are used in the portfolios. These Managers/Strategists are not compensated directly from HTS. We have a conflict of interest to recommend selections of management styles and advisers that would result in a lower percentage of advisory fees paid to HTS. We intend, however, to make all recommendations independent of such fee consideration and based solely on our obligations to consider your objectives and needs.

The maximum fee schedule for the Direct Access Program services is set forth below, but is negotiable in individual cases:

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

### **Additions and Withdrawals from a Direct Access Account**

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 and charged to your account as of the date you deposit the additional assets, or you will receive a pro-rated adjustment or refund of any prepaid fee as of the date of withdrawal.

### **Compass UMA Program**

The Compass UMA Program is a non-discretionary program that provides you access to 7 risk-based asset allocation models. Your IAR will provide you with recommendations regarding the appropriate asset allocation and underlying investments of mutual funds and ETFs to meet your objectives, but you are making the final selection of the investment allocation model and underlying funds and changes made to the Compass UMA portfolio and are ultimately responsible for the selection of the appropriate risk-based asset allocation model and underlying investment funds. Envestnet provides overlay management services for UMA accounts and implements trade orders based on the semi-annual or annual rebalance discipline as well as transactions directed by you and your adviser. Your IAR will assist you in creating the asset allocation portfolio, providing you with recommendations regarding the risk-based asset allocation and underlying investments. You shall select the asset allocation and the investment strategies. 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 mutual funds and ETFs that you have selected.

### **The Rebalancing Process:**

Client will have the option to either have the account rebalanced semiannually or annually. Platform Manager will review all Compass UMA accounts daily and identify accounts that have not been rebalanced based on the rebalance selection at inception of the account. The review is based on the inception date of the account. If an account has been determined to have any position outside of the drift tolerance set by HTS the account will be rebalanced. If an account has no positions outside of the drift tolerance no trades will be made and the rebalance clock will be reset. Trades will be done to maintain client’s target asset allocation among the Mutual funds and/or ETFs. 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). Adviser and client

are free to direct a rebalance as they choose, but the account will be automatically reviewed and rebalanced at least on a semiannual or annual or basis as selected by the client. When the account is rebalanced, the calendar is reset with a new semiannual or annual review now established. HTS reserves the right to change the drift tolerance as the model portfolios/accounts are reviewed for activity.

A rebalance of the account will also take place when you direct HTS to raise cash for a withdrawal or you make a deposit to the account that results in the cash balance being low or high. All deposits made to the account will be deemed eligible for immediate investment and you will be responsible for any losses that may arise from a deposit in error.

**Fund Changes:** Fund Changes within the Compass UMA account will require your Adviser to get your prior consent. All Fund Changes received by Envestnet prior to 12:00 pm CST will be processed the same day on a best effort's basis. Requests received by Envestnet after 12:00 pm CST will be processed by 12:00 pm CST the following trading day. Rebalancing or fund changes may result in tax consequences to the account holder including, but not limited to, the realization of capital gains, and/or losses regarding the sale of fund shares.

### **Compass UMA Program Fees**

Fees for the Compass UMA Program are offered on a wrap fee basis, covering all of our execution, consulting and custodial services. The maximum Compass UMA fee schedule, shown in the table below, is based on total account value and is negotiable. The fee schedule is not applied incrementally; the corresponding rate is applied to the entire account value for the purpose of determining the fee rate. The fees do not cover the fees and expenses of any underlying ETFs or mutual funds. The fee is calculated using the market value of the account on the last day of the preceding quarter. The fee is charged to the account each calendar quarter, on a pro-rated quarterly basis and is billed in advance. Your program fee will not be adjusted for no or low trading activity.

Maximum Annualized Fee Schedule

| <i>Maximum Fee Schedule for Compass UMA Program</i> |                           |
|---|---------------------------|
| <i>Amount</i>                                       | <i>Maximum Annual Fee</i> |
| \$0 - \$250,000                                     | 3.00%                     |
| \$250,000 - \$500,000                               | 2.50%                     |
| \$500,000 - \$1,000,000                             | 2.25%                     |
| \$1,000,000 - \$4,000,000                           | 2.00%                     |
| Over \$4,000,000                                    | 1.85%                     |

Client agrees and acknowledges that other fees may be assessed to Client that are not part of the Program Fee. Other Fees include, but are not limited to, fees for portfolio transactions executed away from the Sponsor, dealer mark-ups, electronic fund and wire transfer fees, market maker spreads, exchange fees and broker/custodian fees. Client is further advised that mutual funds/ETFs charge their own fees for investing the pool of assets in the investment vehicle and such fees are apart from, and in addition to, the Program Fee charged hereunder. Please see the prospectus or related disclosure document for information regarding those fees. Client acknowledges and understands that Hilltop Securities and/or its affiliates may receive 12b-1 fees or other fees from the mutual funds in which client invests.

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

### **Additions and Withdrawals from a Compass UMA Account**

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 and charged to your account as of the date you deposit the additional assets, or you will receive a pro-rated adjustment or refund of any prepaid fee as of the date of withdrawal.

### **HTS 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 are permitted to 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 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

Some of these strategies involve the use of asset allocation models, long-term and short-term investments. HTS uses our discretion in some cases 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 have discretion to 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 has discretion to purchase and sell a broad array of different securities including any of 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 in some cases include several share classes including Institutional, Advisory and other non 12b-1 fee paying share classes. In limited cases some mutual funds may pay 12b-1 fees.
- 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
- Certain Fee-Based Variable Annuities

**The following products/strategies are generally not eligible (“Ineligible Assets”) for our Advisory programs:**

- Syndicate Issues/Initial Public Offerings/Brokered CDs
- Short Positions – Unless approved
- Solicitation of Low-Priced Securities – As defined in Section 11.3.3 of the WSP’s – No unsolicited purchases in DOL related accounts
- Fixed Annuities and certain 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.

Our Advisory programs do not offer the ability to conduct principal trades. As such, in these accounts, you are not permitted to 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.

Hilltop Holdings (HTH) Stock. Subject to the exception described below, our Advisory Programs do not offer HTH stock or HTH securities. We do not allow Program Accounts to be funded by depositing HTH stock.

HTS has discretion to allow SMA Managers in the Premier Advisors Program who are not affiliated with HTS to purchase HTH securities for your Accounts (this is limited to the common stock of HTH).

### **Fee-Based Annuities in the Partner Program**

IARs make sub-accounts allocation recommendations for various fee-based variable annuities available through HTS on a non-discretionary basis for an advisory fee, subject to the Partner Fee Schedule located in the “Partner Program Fees” section. Clients maintain authority over the selection of the sub-accounts or underlying investment options, which means that your Investment Adviser must consult with you to determine and obtain your approval as to which sub-accounts/investments are to be purchased or sold in your fee-based annuity.

Advisory fees charged for the sub-account/investment allocation recommendations provided for fee-based annuities are in addition to any underlying fees related to the fee-based annuity. You may refer to your fee-based annuity’s prospectus for a description of any underlying fees. You should be aware that certain riders purchased with the fee-based annuity may limit the investment options and the ability to reallocate to certain sub-accounts. Additionally, the decision to liquidate a fee-based annuity prior to the end of its surrender charge period may result in early withdrawal charges and a complete loss of certain benefits for which fees may have previously been paid to the annuity company. For variable annuities, you should rely solely on the disclosure contained in the annuity contract and the product prospectus with respect to the terms and conditions of the annuity.

Your fee-based annuity must be linked to the Partner account to effect billing. In order to bill you for investment advisory services on the fee-based annuity, you will need to maintain a cash balance in your Partner account from which your asset-based advisory fees can be deducted or provide another non-retirement brokerage account for the advisory fee to be debited.

HTS receives transaction-based compensation related to the sale of annuities, such as upfront commissions relating to the initial sale of the product and ongoing trail commissions or residuals relating to a client’s continued holding of the product. HTS compensates its

Investment Advisers based upon the compensation it receives. The receipt of such compensation provides HTS and its Investment Advisers an incentive to favor annuities that provide higher compensation.

In addition to the compensation described above, HTS may receive additional financial support from sponsors of annuities. This support, which varies from sponsor to sponsor and is commonly referred to as “marketing support” payments, is typically allocated toward the costs of training and educating HTS Investment Advisers about the products offered by the sponsor, due diligence on the products and marketing support.

Receipt of marketing support payments provides HTS an incentive to favor annuities and their sponsors that make greater levels of such payments. However, HTS is a fiduciary that is required to act in the best interests of advisory clients when recommending annuities to those clients, and HTS does not consider the receipt of marketing support payments when making sponsor or product recommendations.

The marketing support payments that HTS receives from annuity product sponsors are not paid to HTS IARs, and the compensation that HTS pays to its Investment Advisers is not tied to such financial support.

More specific information about the compensation that HTS receives related to the sale of annuities is available in the product’s prospectus or other disclosure documents. Clients may also contact HTS or their IAR for more specific information about the amount of compensation HTS receives from annuities or their sponsors.

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

Neither HTS, 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 HTS commission-based brokerage account, we will transfer those assets from your Program account to your HTS 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 HTS or your Investment Adviser. HTS has discretion to terminate your Account.

If you do not have a separate HTS 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 can 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 can also cause a trade error(s) due to over investment and in this situation, we have discretion to terminate of your account.

### **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 can 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.

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 cannot be linked where a prohibited transaction under ERISA or the Internal Revenue Code could 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 HTS 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 Envestnet, 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. HTS 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 are 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.

### 4. Alternative Investments Valuation and Redemptions

The valuation of alternative investments held at HTS reflect the records of the issuers and administrators of those funds. HTS 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 HTS are subject to ongoing research, although the level performed varies. In very limited circumstances, a closed fund could be subject to no ongoing research. A fund that you purchased elsewhere could never have been subject to HTS research.

The NAV is primarily based on estimated portfolio values provided by the underlying fund sponsor. Reported estimates sometimes do not reflect resale, liquidation or repurchase value, if any, and sometimes do not reflect distributions of capital until the next valuation is reported, generally on an annual or semi-annual basis. These valuation practices are important because we calculate the Program Fee for alternative investments you hold in Advisory Accounts based on these estimates.

For purposes of calculating the Program Fee, we will use the valuation of alternative investments available/reported to us as of the billing date. Valuation for alternative investments is often delayed, so only those investments that have at a minimum quarterly valuations will be eligible for the program. In addition, for Program Accounts holding eligible alternative investment (nondaily traded alternative funds), initial cash proceeds from redemptions sometimes are not received into the account for a period that can extend over several months. Proceeds from "hold back" promissory notes are usually received within 18 months of issuance.

Redemptions and "Hold Back" Promissory Notes: For accounts holding eligible alternative investments, proceeds from redemptions are not to be received into the Advisory Account for a period that can extend over several months after a redemption request is submitted and is effective. As a result, the Program Fees charged originally are based on the value of the alternative investment fund inclusive of the value of the alternative fund pending redemption.

You will receive a credit of the Program Fee imposed on alternative investments you redeem in whole or in part while you hold these investments in Advisory Programs. Credits will be based on the effective date of redemption.

## **Advisory Programs Fees and Compensation**

For all Programs, the fees are listed in the previous section under each program. The program fees do not cover the fees and expenses of any underlying ETFs, closed-end funds, UITs, ETNs or mutual funds, fees for ancillary services such as wire transfers, returned checks, etc., nor does it cover all applicable exchange fees or option reporting fees.

You should be aware that commissions or Program fees charged could be higher 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 sizes and overall range of services provided.

HTS acts as a co-advisor and/or provide certain services offered by its affiliate Hilltop Securities Independent Network Inc. and certain fully disclosed firms that clear their transactions through HTS. The fees that these firms charge sometimes are different from what is stated in this Disclosure Brochure. Please refer to the disclosure document of those firms, as appropriate, to determine the fees they charge.

You should consider the value of these advisory services when making such comparisons. The combination of custodial, advisory and brokerage services sometimes are not available separately or could 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 costs. Advisory Programs typically assume a normal amount of trading activity and, therefore, under particular circumstances, prolonged periods of inactivity or asset allocations with significant fixed income or cash weightings can result in higher fees than if commissions were paid separately for each transaction.

If you liquidate securities prior to initiating or after terminating a 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, money market mutual funds, or free credit balances held at HTS. 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. Customer deposits in BID are designed to provide FDIC insurance up to the FDIC insurance limit at each participant bank; however, FDIC insurance limit at any bank applies to all of the client's deposits in any capacity at that bank. As a result, the customer must inform HTS if he or she has other deposits outside of BID at a participant bank and opt of having the BID program sweep funds to that bank; otherwise, some of the customer's deposits at that bank might not be protected by FDIC insurance if that bank were to become insolvent. HTS anticipates that PlainsCapital Bank will receive a financial benefit from the use of sweep funds, such as net interest income. HTS has a conflict of interest with respect to BID, because the banks participating in BID (including PlainsCapital) have discretion in determining how much interest to pay on BID deposits, and HTS has discretion in determining how much of that bank interest rate is paid to customers in the program and how much of the bank interest rate to retain itself as a Program Fee. The banks (including PlainsCapital) have a financial interest in paying a lower interest rate so that their net interest income is increased, and HTS has a financial incentive to pay a lower rate to customers so that its fees are increased. Similarly, HTS has discretion concerning the amount of interest to pay, if any, on cash swept to free credit balances held at HTS, and HTS has a conflict of interest in determining this interest rate because a lower or no interest rate paid to customers on free credit balances results in greater revenue for HTS. By contrast, a money market mutual fund has a fiduciary duty to seek the highest possible return for customers consistent with its investment strategy. HTS does not share any fees receives in the BID program or any revenue received in connection with free credit balances with its IARs.

HTS has additional arrangements with sweep money market mutual funds to receive compensation, in the form of shareholder servicing fees, based on assets invested in their respective money market funds. This compensation is not shared with the HTS IAR. HTS utilizes both Dreyfus and Federated money market funds to sweep cash balances from customer accounts. For the Dreyfus money market funds HTS uses the "Investor" and "Wealth" share class which do not include 12b-1 fees but do include shareholder servicing fees and management fees and are more expensive than other share classes of those same funds that are available to advisory customers. In the case of Federated money market funds, HTS uses Automated, Wealth and Service shares that also pay HTS shareholder servicing fees and management fees, and are more expensive than other share classes of those same funds that are available to advisory customers. The use of higher-cost share classes of money market funds than are otherwise available to the

customer, and the use of money market mutual funds that pay shareholder servicing fees instead of other money market funds that do not pay these fees, are conflicts of interest on the part of HTS. Certain money market funds pay us a distribution fee that increases when more of our clients' funds are invested in the money market fund. As a result, we have an incentive to recommend only those sweep money market funds that pay us distribution fees over those that do not, although our financial professionals do not share in those fees. 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 HTS's Customer Information Brochure. Any sweep compensation is in addition to any Program fees. HTS offers other money market mutual funds (and other share classes) to customers on a position-traded basis, that is to say, by having the customer's IAR place individual buy or sell orders for those funds, not on an automated sweep basis. Some of these position-traded money market mutual funds offer higher yields to customers than the sweep money market mutual funds, and pay lower or no fees to HTS. HTS has a conflict of interest with respect to the decision whether to allow customer cash balances to be swept automatically to its sweep money market funds, or to be position-traded into other money market funds that are higher-yielding to customers but pay lower or no fees to HTS. HTS also has a conflict of interest with respect to all of the sweep options because the revenue it earns from those sweep options give it an incentive to increase the amount of a client's assets allocated to cash as compared to other assets.

Your IAR has 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 the client's IAR, which generally is more than the IAR would receive under an alternative program or if you paid for these services separately. Therefore, your IAR has a financial incentive to recommend a particular account program over another. In addition, your IAR receives incentive compensation for utilizing a particular account program. Such incentive compensation is generally available as follows:

IARs utilizing any of the previously mentioned Programs offered by HTS 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 generally is 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 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 HTS, its affiliates and IARs at increasing asset levels. However, such compensation arrangements represent a conflict of interest where an IAR is 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. You should be aware of such arrangements and should consult your IAR for additional details regarding your IAR's compensation levels in fee-based accounts.

While certain account minimums are set for each advisory account Program, your IAR can 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 Program is unique and offers a different bundle of services, the standard advisory fee you pay is allocated within the firm differently from one Program to another. The compensation received by the IAR is higher in some particular programs relative to others, and this compensation fluctuates based on certain minimum clearing or retention rates assigned by the IAR's broker-dealer, including HTS. 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 has a disincentive to recommend certain of the aforementioned Programs to Clients with smaller accounts that otherwise would meet the standard account minimum for each respective Program. Therefore, this causes a conflict to exist with respect to the level of investment diversification a Client may achieve.

HTS receives financial remuneration from some market centers for certain orders routed and executed at that market center.

HTS has entered into a clearing arrangement with an unaffiliated registered broker-dealer pursuant to which the broker-dealer clears transactions in certain mutual funds. This broker-dealer has established relationships with the mutual fund companies. The registered broker-dealer receives sub-transfer agent fees and shareholder servicing fees from the mutual fund companies or their affiliates for the shareholder, administrative and other recordkeeping services it provides, and passes all or a portion of these fees through to HTS. The sub-transfer agent fees and shareholder servicing fees vary by Mutual Fund Company and are based on assets held in HTS Client Accounts. These fees are a percentage of the fund's average net assets per year and the percentage paid to HTS generally ranges up to 0.35%, though that number can be higher or lower. The fees are not paid from your account, but are paid from the mutual fund. As a result, the fees reduce the fund's net asset value and thus the value of an investment in the fund. Therefore, these fees are a form of indirect compensation paid by all investors in the mutual fund. Generally, whether HTS receives these fees is not dependent on the share class in which you invest. HTS has an incentive to only offer mutual funds and other investments that make third party payments or enter into revenue sharing agreements with us. HTS also has an incentive to recommend these investments to you because the more client assets that invest in them the more payments and revenue we receive. These revenue-sharing payments create a conflict of interest

because some Mutual Fund Companies pay more than others, and HTS therefore has a financial incentive to choose mutual funds issued by Companies that pay it more than others, and this financial incentive could interfere with HTS' fiduciary obligation to choose the best available investments for you. These revenue-sharing payments also create a conflict of interest because they create an incentive for HTS to invest your assets in mutual funds that pay these fees, rather than other types of investments (such as equities, bonds or ETFs) that do not pay these fees, or mutual funds from companies that do not pay these fees. HTS can only sell mutual funds issued by Mutual Fund Companies with which HTS signs a selling agreement, and these revenue-sharing payments create a conflict of interest because HTS has a financial incentive not to sign selling agreements with Mutual Fund Companies that do not make these payments, which in some cases as a result offer mutual funds with lower operating expense ratios. We intend, however, to make all recommendations independent of such fee consideration and based solely on our obligations to consider your objectives and needs.

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

In general, we pay our IARs cash compensation consisting of two components: a guaranteed monthly minimum draw required by applicable law, and production payout if it exceeds the monthly minimum draw. 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 20% to 55%. IARs working as part of a team that meets minimum production requirements can qualify for a higher grid rate (but not above 55%) 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 employees, including reducing and/or denying production payout and/or awards at our discretion for any reason.

**Investment Advisory Programs:** For our Investment Advisory Programs (asset-based fee programs) the payout rate is applied to the program fees credited to the IAR by the Firm. Under certain circumstances some IARs or producing Branch Managers are compensated differently.

**Recruitment Compensation:** In general, if your IAR is joining HTS 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 HTS. In many cases, HTS pays IARs financial incentives when they join and on an ongoing basis as described below.

Many IARs who joined HTS are eligible to receive incentives, including loans, bonuses and/or other compensation, if they reach certain asset and/or production levels or other targets. The amount paid to IARs under these arrangements is largely based on the size of the business serviced by the IAR at their prior firm and the IAR achieving a minimum percentage of their prior firm production and asset levels within a specific time period after joining HTS.

These payments can be substantial and take various forms, including salary guarantees, loans, transition bonus payments, transitional increased grid payouts and various forms of compensation to encourage IARs to join HTS, and are contingent on your IAR's continued employment. Therefore, even if the fees you pay at HTS remain the same or are less, the transfer of your assets to HTS contribute to your IAR's ability to meet such targets and to receive additional loans and/or compensation even if not directly related to your account or the fees you pay to us.

These practices create an incentive and a conflict of interest for your IAR to recommend the transfer of your account assets to HTS since a significant part of the IAR's compensation is often contingent on the IAR achieving a pre-determined level of revenue and/or assets at HTS. You should carefully consider whether your IAR's advice is aligned with your investment strategy and goals.

**Awards:** IARs are generally eligible to qualify for strategic objective awards and recognition programs, which are based on production and other criteria as determined by HTS.

### **Mutual Fund Investments available through HTS**

You should be aware that only those mutual fund companies with which HTS 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 HTS marketing service and support fees, which compensate HTS for marketing efforts to its clients concerning the mutual funds, as well as for shareholder servicing activities (such as order-taking, responding to customer inquiries, providing confirms, statements, prospectuses and issuer communications) that the mutual funds otherwise would have to provide to customers themselves, and are revenues to HTS in addition to the advisory fee revenue we receive from customers. These fees generally range from 0% to .31% (thirty-one, one hundredths of one percent) on HTS customer assets invested with those mutual fund companies, and in the aggregate are a material revenue source for HTS. As a result, not all mutual funds available to the investing public will be available for investment. However, HTS 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, 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 are paid to HTS. To the extent that Hilltop receives 12b-1 shareholder servicing fees in any Managed Accounts, they will be rebated to clients.

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 HTS 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.

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

HTS 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 HTS. HTS 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 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 HTS, 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 can 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, HTS 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 HTS (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 are not 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. 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 sponsored by HTS, you will select the IAR with whom you wish to work with. 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 HTS, or your IAR, believes that the restrictions are inappropriate, HTS has discretion to remove your account from the Program.

In some cases, HTS has discretion to liquidate preexisting positions in your portfolio immediately and bring your 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 can temporarily place certain restrictions on securities for the purpose of model rebalancing. This is 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. HTS, your IAR, and any outside Investment Managers will have no further obligation to act or advise 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 Programs, we can liquidate your account at that time 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 has 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 HTS IAR or Branch Office Manager 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 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 HTS.

## Performance Based Fees

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

## Types of Clients

The minimum initial account values for the Programs described in this Disclosure Brochure are listed below. HTS has discretion to terminate any Program Account if they fall below the minimum Account Value guidelines established by HTS. Under certain circumstances, HTS has discretion to grant an exception to the minimum Account Value.

| Program Name                   | Minimum Account Size                    |
|--------------------------------|---|
| Financial Planning/ Consulting | No Minimum                              |
| Partner                        | \$30,000                                |
| Compass UMA                    | \$25,000                                |
| Advantage                      | \$30,000                                |
| Premier Advisors               | \$100,000 (Subject to Managers Minimum) |
| Direct Access                  | \$25,000 (Subject to Managers Minimum)  |
| Unified Managed Account        | \$100,000 (Subject to Managers Minimum) |

HTS generally provides investment advisory services for individuals, individual retirement accounts ("IRAs"), banks and thrift institutions, pension and profit-sharing plans, including plans subject to ERISA, trusts, estates, charitable organizations, state and municipal government entities, corporations and other business entities.

HTS can prohibit anyone or any account type from establishing a Program Account for any reason, including if we believe it is not an appropriate investment strategy for you.

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

### Manager/Strategist Selection and Evaluation

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

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

#### Long-term Purchases:

Where appropriate, HTS 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 do this when we believe the securities to be currently undervalued. We also do this when 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, HTS does not take advantages of short-term gains that could be profitable to you. Moreover, if our predictions are incorrect, a security could decline sharply in value before we make the decision to sell.

#### Short-term Purchases:

Where appropriate, HTS also purchases 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, HTS 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 results 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. HTS borrows 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 are certain costs associated with the securities that HTS borrows on your behalf, and you agree to pay such costs.

One risk in selling short is that losses are theoretically unlimited. HTS 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 has greater risks in times of inflation, as prices adjust upwards regardless of the relative value of the stock.

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

### **Margin:**

Leverage strategies, such as using margin, are desirable in some cases but are generally not recommended for Advisory accounts. If your account is approved for margin trading, you could be required to deposit additional securities or cash on short notice to maintain your position and/or to maintain sufficient assets to meet HTS's requirements. If you do not meet requirements in the required time frame, we have discretion to 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.
- HTS 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 can have a positive or negative performance affect, net of interest charges and other account fees that likely will be greater as a consequence of using margin. As a result, gains or losses in a leveraged managed account are likely to be greater than would be the case with an unleveraged managed account.

As explained in the Margin Disclosure brochure, HTS has discretion when setting the interest rate for your margin balance, and HTS earns more revenue the higher it sets this interest rate. This creates a conflict of interest because HTS has a financial incentive to charge you a higher-than-market-rate interest rate for margin loans. HTS has the right to loan to third parties your securities pledged to secure your margin balance, HTS earns revenue from these loans, and HTS retains all of this revenue. This creates a conflict of interest because HTS has the ability to determine which securities will be pledged to secure your debit balance, and HTS a financial incentive to loan the securities that will result in the greatest level of revenue for HTS. For more information relating to risks and costs of margin, please refer to the Hilltop Securities Customer Information Brochure.

### **Options:**

Certain types of option trading are permitted in order to generate income or hedge a security held in the Partner Program; namely, the selling (writing) of covered call options or the purchasing of put options on a security held in the Program account. You should be aware that the use of options involves additional risks. The risks of covered call writing include the potential for the market to rise sharply. In such case, the option counterparty has the right to call away the security 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 are 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 HTS 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 can 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 often are based in substantial part on future expectations rather than current achievements and can move sharply, especially during market upturns and downturns. Small-cap companies themselves often are 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 Risk:** Bonds offer return of principal if held to maturity, but any bond remains subject to the creditworthiness of the guarantor and, prior to maturity, the bond is 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 and 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) are sometimes 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 could be removed or phased out for investors at certain income levels.

- **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 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.
- **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 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.
- **Trading Frequency Risk:** Frequent trading can 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. These 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. As a result of any of these factors, among others, the Fund's shares can trade 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 can 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 HTS, 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 HTS'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 HTS and/or IARs 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, HTS 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 HTS or your IAR, often use 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 seek to reduce the overall volatility and risk of a portfolio by avoiding overexposure to any one asset class during various market cycles. Asset allocation does not guarantee a profit or protect against loss.
- **Technical Analysis (a.k.a. “Charting”):** A method of evaluating securities by analyzing statistics generated by market activity, such as past prices and volume. Technical analysts do not attempt to measure a security’s intrinsic value. Instead, they use charts and other tools to identify patterns that can suggest future activity. When looking at individual equities, a person using technical analysis generally believes that performance of the stock, rather than performance of the company itself, has more to do with the company’s future stock price. It is important to understand that past performance does not guarantee future results.
- **Fundamental Analysis:** A method of evaluating a security that entails attempting to measure its intrinsic value by examining related economic, financial, and other qualitative and quantitative factors. Fundamental analysts attempt to study everything that can affect the security’s value, including macroeconomic factors (e.g., the overall economy and industry conditions) and company-specific factors (e.g., financial condition and management). The end goal of performing fundamental analysis is to produce a value that an investor can compare with the security’s current price, with the aim of figuring out what sort of position to take with that security (underpriced = buy, overpriced = sell or short). This method of security analysis is considered to be the opposite of technical analysis.
- **Quantitative Analysis:** An analysis technique that seeks to understand behavior by using complex mathematical and statistical modeling, measurement, and research. By assigning a numerical value to variables, quantitative analysts try to replicate reality mathematically. Some believe that it can also be used to predict real-world events, such as changes in a share price.
- **Qualitative Analysis:** Securities analysis that uses subjective judgment based on non-quantifiable information, such as management expertise, industry cycles, strength of research and development, and labor relations. This type of analysis technique is different from quantitative analysis, which focuses on numbers. The two techniques, however, are often used together.

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

HTS maintains a list of mutual funds and ETFs eligible to participate in the Advantage Program. Selection of the eligible funds include the following minimum criteria stated below. HTS 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 HTS 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.

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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.

- 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 has his or her own different philosophy or criteria in the review and selection of investment products.

Each quarter the list is reviewed by HTS. Mutual Funds and ETFs that are on the list that do not meet the initial qualifying parameters the following quarter typically are removed from the eligible funds list for new money. The IARs of HTS (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 are permitted to continue to do so as deemed appropriate by the IARs of HTS (or Correspondents, where applicable).

HTS 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.

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

HTS 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 are higher-risk strategies and such strategies are not intended for all clients. Clients who choose to follow higher-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 are 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 can result in the risk score being changed to a higher or lower risk. Envestnet will notify HTS 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 by HTS to determine eligibility. This includes, among other things, assets under management, inception date of strategy, manager tenure, investment style and performance factors. We also review investment philosophy and process, trading practices, fundamental and quantitative statistics of the strategy. In some cases, we also conduct interviews with portfolio managers, principals and key staff members.

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

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

### **Compass UMA Program - Methods of Analysis**

HTS maintains a list of mutual funds and ETFs eligible to participate in the Compass UMA Program.

Your IAR will research and recommend funds from the Eligible Funds List for your account based on the stated risk tolerance, risk-based asset allocation model selected and investment objectives. Each adviser has a different philosophy or criteria in the review and selection of investment products.

Periodically the list is reviewed by HTS and funds may be removed, or new funds may be added as deemed necessary. The IARs of HTS 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 are permitted to continue to do so as deemed appropriate by the IARs of HTS.

HTS makes available 7 Compass UMA risk-based 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 select either the required semiannual or annual rebalancing. 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.

### **Voting Client Proxies**

HTS 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 HTS receives material on your behalf, we will promptly forward such material to your attention. HTS does not offer advice regarding proxy voting; this is the sole responsibility of the shareholder. With respect to the Premier Advisors Program, Envestnet and/or third-party investment managers with discretion vote the proxy. You may request information on how your securities were voted by each sub-manager by contacting HTS. HTS will aid any customer to obtain proxy voting information if requested. If such information is not readily available, it would 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 HTS.

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

#### **Information Provided to Envestnet**

When you establish an Advisory Services Group Program account, HTS will send various information about you and your account to Envestnet (including your name, address, account assets, 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. In some cases, HTS also sends 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, HTS imposes no limitations on your ability to consult your Investment Manager(s) and/or Portfolio Strategist(s) directly, but you are encouraged to first contact your IAR.

### **Disciplinary Information**

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

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 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 HTS) 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 HTS) agreed to a censure and \$12,500.00 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 July 2015, affiliate FSC reached a settlement agreement with FINRA for failing to deliver Exchange Trade Fund Prospectuses to its own customer at the time of delivery of the security in contravention of Section 5 of the Securities Act of 1933. FSC agreed to a censure and \$450,000 fine.

In August 2015, an extended hearing panel decision was made to fine affiliate broker-dealer SWSFS (now MIN) \$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 affecting 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, 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, 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 affiliate Momentum Independent Network (MIN), 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 June 2020, HTS reached a settlement with FINRA for failure to establish and implement an anti-money laundering (“AML”) compliance program that was reasonably designed to detect and report suspicious trading activity in low-priced securities. FINRA alleged that HTS failed to conduct reasonable reviews of low-priced securities activity for the purposes of determining if a Suspicious Activity Report should be filed. The same settlement agreement also applied to the Firm’s failure to submit required regulatory filings to the MSRB’s EMMA system and G-17 disclosure letters to issuers in connection with primary offerings of municipal securities. HTS

agreed to a \$475,000.00 fine (\$375,000 for AML and \$100,000 for the municipal offerings), censure and to retain an independent consultant to conduct a review of the reasonableness of its policies, systems and procedures related to the AML matter.

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

Hilltop Securities (“HTS”) is a wholly owned subsidiary of Hilltop Holdings Inc. (“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. HTS provides 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 HTS.

Affiliates of HTS that are material to HTS’s advisory business include:

- Momentum Independent Network Inc. (“MIN”) (formerly Hilltop Securities Independent Network Inc. ), a dually registered Broker-Dealer and Registered Investment Adviser
- Hilltop Securities Asset Management, LLC, a Registered Investment Advisor
- Southwest Insurance Agency, Inc., a licensed insurance agency
- Southwest Financial Insurance Agency, Inc., a licensed insurance agency

HTS, 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, some IARs also are licensed and operate as insurance agents and 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 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 HTS or IARs of HTS in connection with any advisory service that we offer.

HTS also has arrangements with MIN which are material to its advisory business. HTS and MIN are affiliated due to their common ownership by HTH. HTS is the sponsor of the Premier Advisors, Advantage, and Russell Programs. MIN offers the Premier Program to clients via a co-advisory arrangement it has with HTS. For all Programs sponsored by MIN, 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 MIN generally ranges between 0.10% to 0.35% (annual rate) of the Account Value of each Program.

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

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

HTS, a full-service broker-dealer and investment adviser, provides fully disclosed securities clearing, securities brokerage and investment banking. As a registered broker-dealer, HTS is a member of Financial Industry Regulatory Authority (“FINRA”) and the Securities Investor Protection Corporation (“SIPC”). As an introducing broker, HTS engages in retail securities transactions for investment advisory and non-investment advisory clients, along with certain other activities normally associated with a broker-dealer. In this capacity, HTS receives certain fees and commissions, including a share of commissions for effecting client transactions. Any such fees are separate to the advisory fees a client pays HTS for the provision of investment advisory services.

IARs are also associated with HTS as registered representatives (“RRs”). IARs are permitted to recommend the purchase of securities offered by HTS as a securities broker-dealer. If a client purchases these products through these individuals as RRs in regular brokerage accounts, they will receive normal commissions, including 12b-1 fees for the sale of investment company products, which are separate to the advisory fees you pay. As such, IARs 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 exists between their interests and your interests. While our securities sales are reviewed for suitability by an appointed supervisor, a client should be aware of the incentives we have to sell certain securities products, and you are encouraged to ask us about any existing or potential conflict of interest. Please be aware that you are under no obligation to purchase products or services recommended by HTS or IARs of HTS 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 HTS or the IAR in providing investment advisory or brokerage services you.

### **Registration as an NFA Introducing Broker-Dealer**

HTS 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 HTS, trading activity is reviewed on a daily basis by the Branch Manager or designee assigned to the IAR. Other reviews, as deemed appropriate, are conducted by ASG, the Branch Manager or designee. IARs registered through HTS conduct reviews on at least an annual basis, which can provide an opportunity for you to update HTS with any material changes in your financial condition, risk tolerance, objectives and/or investment restrictions.

### **Client Reports**

Clients receive written custodial account statements monthly if there is activity, or quarterly in the absence of activity. Confirmations of all securities buy/sell transactions. In addition, performance reports are available upon request.

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

### **Code of Ethics**

HTS 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 HTS.

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 HTS at the time of his or her initial affiliation with HTS and annually thereafter; we make sure it remains available to each supervised person for as long as he or she remains associated with HTS; 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. HTS will provide a copy of the Code of Ethics to any client or prospective client upon request.

### **Personal Trading**

HTS and its officers, directors, employees and affiliates can buy or sell securities for themselves that they also recommend to clients. HTS receives duplicate confirmations for all trades conducted by HTS personnel and reviews them for potential conflicts of interests.

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

HTS, as a broker-dealer, can act as an agent or, where permitted by law, or principal (including instances wherein we are an underwriter or selling group member). Even though HTS is permitted by contract or by law to do so, as a matter of policy, we generally do not execute principal trades or agency cross transactions in our advisory programs. Although in some instances, HTS can provide a more favorable market price to you if we participate in principal trade or an agency cross transaction with client accounts, HTS does so only when consistent with our obligations to seek 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 HTS enters into principal trades or agency cross transactions, we will provide specific disclosures and obtain your consent. We rely on codes and restrictions in our systems as well as additional software to prevent non-permissible principal trades. In some instances, HTS 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 HTS by a nonrelated portfolio manager, to whom the client has granted discretionary trading authority and HTS does not recommend, select or play a role, direct or indirect, in

the portfolio manager's selection of particular securities to be purchased for, or on behalf of, program clients. HTS has implemented systems and procedures that are designed to comply with the policy stated above and to monitor related activities.

HTS also has the discretion to affect cross-transactions between client accounts, where one client purchases a security held by another client. Neither HTS 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 we have determined to reflect their value.

You should understand that, to the extent permitted by applicable law, HTS can, in transactions involving your securities, act as agent while also representing another client of HTS on the other side of the transaction ("Agency Cross-Transaction") provided, however, that no such Agency Cross-Transaction will be effected for the Program Accounts of any ERISA Plan or an individual retirement account.

If the transaction is an Agency Cross-Transaction, in which HTS 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 Investment Adviser or another person received 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 HTS received or will receive in connection with these transactions, if any.

HTS generally will not affect Agency Cross-Transactions between clients if we have recommended the security to both clients. Such Agency Cross-Transactions has a potential of conflicting division of loyalty and responsibility regarding both parties to the Agency Cross-Transaction. Such transactions are generally limited brokerage (non-advisory) clients only unless specific consent by the client has been granted to the transaction in accordance with regulatory requirements. HTS sometimes has a financial interest in securities or investment products that HTS'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, we seek to obtain the best execution for each of our advisory clients.

## **Brokerage Practices – Best Execution**

HTS renders investment advice to its clients on a nondiscretionary and discretionary basis, pursuant to client's advisory agreement. In HTS'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 has benefits where it requires a client to utilize the services of an affiliated broker/custodian. The directed brokerage relationship creates a conflict of interest as programs implemented through the affiliated broker-dealers pay commissions and/or transaction charges that are higher or lower than at other broker-dealers. 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.

In placing orders for purchase and sale of securities and directing brokerage to effect these transactions, HTS's primary objective is to seek prompt execution of orders at the most favorable prices reasonably obtainable. Sub-managers in the Premier Advisers and Direct Access Program have discretion to cause trades to be executed by broker-dealers other than 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 seek 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 imposes 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. HTS is not a party to step-out trades and is not in a position to negotiate the price or transaction related cost(s) with broker, dealer or bank selected by the sub-manager for these trades.

Securities transactions in client accounts participating in the HTS 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.

## Payment for Order Flow

HTS may receive remuneration in return for directing some customer orders for execution to particular exchanges or market centers. This remuneration, known as payment for order flow, is considered compensation to HTS and may include non-cash items such as reciprocal arrangements, discounts, rebates or reductions or credits against fees that would otherwise be payable in full by your Financial Professional. This arrangement creates a conflict of interest for HTS to route orders to certain exchanges or market centers in exchange for such compensation. Order routing statistics required under SEC rules are available on our website at <https://www.hilltopsecurities.com/hilltop-securities-inc-disclosures/order-routing-disclosure/>

## Order Aggregation & 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.

HTS or the sub-managers have the discretion 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 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 has the discretion to 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, the client will receive the average price of all transactions effected to satisfy the order.

As a result, the average price received by the client could be higher than the price at which the client would have received had the transaction been effected for the client 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 HTS' policy to treat all clients fairly and to achieve an equitable distribution of aggregated orders. Sub-managers participating in the HTS program also participate in other wrap fee programs sponsored by broker/dealers not affiliated with HTS. 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 can 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 utilize a trade rotation process where one group of clients (i.e. MIN Clients) has 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 Strategists 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 will employ a trade rotation process. This occurs when a group of clients 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 can 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 can result in transactions being executed in their account near or at the end of the rotation. There can 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.

### **Client Referral and Other Compensation**

HTS pays referral fees to persons for referring advisory business to HTS pursuant to Rule 206 (4)-3 of the Investment Advisers Act. Such fees are only paid to persons with whom HTS has entered into formal referral agreements. HTS also requires that a referral fee disclosure statement be given to clients (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 a client (or prospective client) will pay.

### **Custody**

Generally, HTS will maintain custody of assets in your account. When HTS acts as custodian, we will provide you with an account statement in any month in which there is trading or other activity in your account, or if there is no trading activity, not less than on a quarterly basis. HTS also provides trade confirmations when securities transactions take place.

### **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 trading to HTS.

### **Investment Policy Statements**

HTS or its Adviser'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. HTS does not provide Investment Policy Statements. HTS 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**

HTS has not been the subject of a bankruptcy petition at any time in its existence. Under no circumstances will we debit fees more than six months in advance of services rendered.