



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

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This brochure provides information about the qualifications and business practices of Hilltop Securities Inc (“HTS”) Any questions about the contents of this brochure, may be directed to HTS at 888-658-9165 or 214-859-9165 or [clientpartners@hilltopsecurities.com](mailto:clientpartners@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). The site may be searched by the 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, 2023*

This Brochure has been updated with the following material Changes that have occurred since the last Client Disclosure Brochure update on March 31, 2022.

## **Bank Insured Deposit Changes**

Effective March 6, 2023, Hilltop implemented certain changes to the cash sweep program. Specifically, Hilltop no longer offers money market mutual funds (“MMMFs”) as a sweep option for excess cash held in customer accounts, and instead only offers customers the option of sweeping excess cash to an interest earning bank deposit account insured by the Federal Deposit Insurance Corporation (also known as the Bank Insured Deposit Program, or “BID” Program).

A copy of the current Client Firm Disclosure Brochure is available at any time, without charge, by contacting Hilltop Securities Inc. by phone at 888-658-9165 or 214-859-9165 or by email at [clientpartners@hilltopsecurities.com](mailto:clientpartners@hilltopsecurities.com). A copy of the most recent disclosure brochure may be obtained 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”), 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 “their”). HTS (“the firm”) is a wholly owned subsidiary of Hilltop Securities Holdings LLC, a Delaware limited liability company.

HTS, as a full-service broker-dealer, provides brokerage, execution, clearing, and custody services to its clients. HTS 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, the client 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, 2022, HTS has \$1,730,433,319 assets under management, \$575,778,536.88 on a discretionary basis and \$1,154,654,782.61 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 HTS must place the interests of the client above their own or those of their advisors. This disclosure document explains the client's rights and MIN's obligations in providing the client with a 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. Financial planning is an ongoing process, and a client's financial plan should be reviewed and updated accordingly as their financial situation and life circumstances change.

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

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

**TAX & CASH FLOW:** HTS will 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:** HTS will analyze investment alternatives and their effect on the client's portfolio. HTS does not include market timing or other product transfer timing advice.

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

**RETIREMENT:** HTS will analyze current strategies and investment plans to help the client achieve their retirement goals.

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

**ESTATE:** HTS will 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:** HTS will analyze the needs of a business owner, which includes business cash flow, valuation, tax planning, benefits planning, and transition planning.

HTS will gather required information through in-depth personal interviews. Information gathered includes the client's current financial status, tax status, future goals, return objectives and attitude towards risk. After reviewing documents supplied by the client, including a questionnaire completed by the client, HTS will 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, HTS will suggest the client work closely with their 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 they receive, to ensure that they accurately reflect their provided data and financial objectives. The appropriateness of HTS' 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. HTS also provides specific consultation and administrative services regarding the client's investment and financial concerns.

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's financial planning/consulting fee is determined based on the nature of the services 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 the client and their HTS advisor.

HTS' financial planning fees are calculated on an hourly, quarterly, or annual fee basis.

1. Financial planning/consulting hourly fees are calculated and charged on an hourly basis with a 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, HTS will provide an estimate for the total hours at the start of the advisory relationship. Up to half of the estimated payment will be charged as a retainer upon completion of the initial fact-finding session with the client, the remainder of the fees will be charged upon completion of the plan, based on actual hours accrued.
2. Financial planning/consulting quarterly and annual fees are calculated and charged as a fixed fee, either quarterly or annually. The fee varies depending on a variety of factors including the scope of services provided, the complexity of the process, the types of issues addressed, and the frequency of the engagement.

The fees for developing a new financial plan differ from the fees for updating an established financial plan.

The Financial planning fees described above do not include the fees a client may incur for additional professional services (e.g. accountant, or personal attorney) in connection with the financial planning process.

If a financial planning/consulting client executes recommended securities transactions through associated persons of the firm in their separate capacities as registered representatives of a broker dealer, those individuals will earn commissions that are separate and distinct from the fees charged for financial planning/consulting. Commissions cannot be credited toward 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 the firm for its 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 to 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 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 the client’s decision to participate in this program. The clients’ and their IAR should discuss whether this program is appropriate for their investment goals or needs. If a client decides to participate in the program, the client will enter into a written HTS Plan Services Agreement (the “Agreement”) between the client, as the responsible plan fiduciary for the retirement plan, and HTS. The client will also enter into an agreement with an HTS approved platform provider for the retirement plan (the “Plan Service Provider”).

Educational Retirement Plan Services typically include:

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

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

#### **Education of Client**

HTS will provide education regarding different plan types and work with the Plan Service Provider to assist with retirement plan set-up. HTS 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 the client in the consideration of a TPA. HTS will not provide recommendations for specific TPAs for plans. The client is responsible for selecting the TPA for the plan.

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

HTS will assist the client with developing an education plan for plan participants. Upon request, HTS 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.

HTS can participate in one-on-one educational meetings with retirement plan participants, in which 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 HTS provides educational services to Pooled Plans, HTS is not acting as a fiduciary of the retirement plan under ERISA.

HTS will provide education on plan types and work with the Plan Service Provider to assist with retirement plan setup. HTS 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. HTS will not provide recommendations for specific TPAs for retirement plans. The 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 HTS. HTS' 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

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

Fees are billed quarterly in advance or in arrears. The amount will be based upon the total market value of the retirement plan as of the last business day 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 HTS, its investment adviser nor any affiliate reasonably expects to receive any other compensation, direct or indirect, in connection with RPAS. If HTS receives any other compensation for such services (such as Rule 12b-1 fees or shareholder accounting revenue), such compensation will be returned 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 RPAS 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 RPAS 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 the agreement with the Service Provider and the agreement with the 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 collective investment funds 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 HTS.

### **Brokerage Practices**

HTS will not execute trades for clients participating in RPAS. Generally, the Plan Service Provider will provide trade execution services for the retirement plan for a fee.

### **Review of Accounts**

The investment adviser should perform periodic reviews with the client, the clients 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.

The investment adviser should perform periodic reviews with the clients 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**

HTS will not provide custody services in connection with RPAS. Generally, the Plan Service Provider will provide custody services for a fee.

### **Investment Discretion**

HTS 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.

HTS does not provide legal or tax advice. The client should consult with their legal or tax professional before participating in Retirement Plan Advisory Services.

If, at any time, the client or HTS wishes to terminate their participation in Retirement Plan Advisory Services, they must provide written notice. If the client terminates their 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, HTS will terminate the Agreement. If the client or HTS terminates their participation in RPAS, the Plan will be charged the RPAS 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 the client with a complete investment program as HTS expects that the assets it manages for the client do not represent the entire value of their investment portfolio. The service begins with a consultation between the client and their IAR to review their investment objectives, financial circumstances and risk tolerance. The client will complete a Risk Tolerance Questionnaire ("RTQ") to document the results of this assessment. After reviewing the results of the RTQ, the client's IAR will recommend a specific advisory program. By reviewing the RTQ and recommending a specific advisory platform, the IAR seeks to appropriately balance their clients' financial objectives and the risk tolerance as part of an investment strategy. The client agrees to immediately notify their IAR of any changes in their financial situation, risk tolerance or investment objectives. In some cases, these Programs cost the client more or less than purchasing the services separately. The client should be aware that commissions or Program fees charged in some cases are higher than those otherwise available if they were to select a separate brokerage service and negotiate commissions in the absence of the extra advisory services provided. The 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;

If the client holds qualified accounts in the Programs such as IRA or other tax advantaged types, please note that the client must carefully monitor their contributions to prevent them from inadvertently exceeding federal limits. The Insurance Carrier will provide all statements and confirmations for the Destination Program.

### **Tax and Impact Overlay Services**

Envestnet as overlay manager offers Tax Overlay and Impact Overlay services for an additional fee. The services must be selected by the client. If selected by the client, Envestnet will provide Tax Overlay Services, Impact Overlay Services, or both, to an account or sleeve. Envestnet operates both services in accordance with their policies and procedures as described in the Envestnet 2A Disclosure Brochure.

Tax Overlay Services seeks to consider tax implications that detract from the client’s after-tax returns. The Tax Overlay Service looks to improve the after-tax return for the client while staying as consistent as possible with the risk/return characteristics provided by the model portfolios. Envestnet evaluates proposed trades in the account and determines if the activity will have an acceptable level of taxable impact to the client, based on the tax settings that Envestnet has been provided by the client through their IAR. The gains and losses realized with the trading of Strategies and/or Funds are considered as part of the Tax Overlay in the Program account. Certain Program strategies also contain the ability to be managed as tax-efficient or tax-aware by the applicable Model Provider. If the client and their IAR have selected a tax-efficient or tax-aware strategy, the client should discuss with their IAR whether the Tax Overlay Service is appropriate in that circumstance. Neither HTS, the IAR nor Envestnet assures that tax liability will be reduced or that any indicated limits or mandates will be met. Neither HTS, the IAR nor Envestnet provide tax planning advice or services. Clients should discuss any question with or request further information from their IAR or tax consultant in using the Tax Overlay Service. The Tax Overlay Service is available for accounts in the Momentum Pathways UMA and Gateway FSP Programs.

Impact Overlay Services seek to reflect a client’s own personal values by excluding investments linked to companies that derive revenues from specific business areas or companies that participate in controversial business activities (e.g., negative environmental impacts, human rights violations, corruption). The end goal of the Impact Overlay Service is to align a portfolio with the personal values of the Client, while staying as consistent as possible with the risk/return characteristics provided the model portfolios. The Impact Overlay Service is available for accounts in the Momentum Pathways UMA Program.

A separate approval must be provided to use the Tax Overlay and Impact Overlay services. When choosing to use either or both services, the client should consider whether the additional fee, which will be charged on the full balance of the account, is justified by the benefit they receive from the services. The client may choose to terminate these services at any time.

### **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 HTS’s Aviator, Co-Pilot, Passport Series Separately Managed Accounts (“SMA”), Momentum Pathways Unified Managed Account (“UMA”) and Gateway Fund Strategist Portfolio (“FSP”) 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 Program 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:

## **Aviator and Co-Pilot Program Overview**

### **Aviator Program**

The HTS Aviator Program, a fee-based advisory program, offers an open architecture platform. This enables the IAR to develop a personalized investment strategy for their clients, manage their customized portfolios, and deliver ongoing investment advice. With Aviator, the IAR can construct a portfolio that consists of a wide assortment of investments including, but not limited to, individual securities, ETFs, mutual funds, and fixed-income positions. In the Aviator Program, the IAR manages the accounts on either a discretionary or non-discretionary basis. For the accounts to be in the discretionary program the IAR must first be approved to participate in the program.

The Aviator Program features include:

- Customized portfolio and allocations
- Account minimum is \$30,000 or as accepted
- On-demand performance reporting and other account reports
- Trading is done on the Momentum back-office system for eligible securities. In some cases, certain securities will not be traded via the Envestnet Platform.

### **Co-Pilot Program**

The HTS Co-Pilot Program, a fee-based advisory program, offers an Adviser-created model-based platform that requires the use of Envestnet to create a model portfolio within the client's risk tolerance and assign that model to accounts. This enables the IAR to develop a personalized investment strategy for their clients, manage their customized portfolios, and deliver ongoing investment advice. With Co-Pilot, the IAR will construct a model portfolio that consists of a wide assortment of investments including, but not limited to, individual securities, ETFs, mutual funds, and fixed-income positions. In the Co-Pilot Program the IAR manages the accounts on either a discretionary or non-discretionary basis. For the accounts to be in the Discretionary Program the IAR must first be approved to participate in the program.

The Co-Pilot Program features include:

- Customized model portfolio and allocations
- Account minimum is \$30,000 or as accepted
- On-demand performance reporting and other account reports
- Trading is done on the Envestnet Platform for eligible Platform securities

### **Aviator/Co-Pilot Methods of Analysis**

Each IAR has the independence to take the approach they believe is most appropriate when analyzing investment products and strategies for clients in the Aviator/Co-Pilot 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 the IAR, 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, the client should consider the 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 no quantifiable information, such as management expertise, industry cycles, strength of research and development, and labor relations. This type of analysis technique is different from quantitative analysis, which focuses on numbers. The two techniques, however, are often used together.

#### **Aviator and Co-Pilot Program Fees**

Fees for the Aviator and Co-Pilot Program are offered on a wrap fee basis, covering all of HTS’s execution, consulting and custodial services. The maximum Aviator/Co-Pilot 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 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. The clients’ 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 the client should make any single deposit or any single withdrawal of \$10,000 or more of cash and/or securities, they 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 their account as of the date they deposit the additional assets, or the client 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 the clients IAR is a critical service of the Aviator/Co-Pilot program account. Solicited transactions will be made based on the recommendations that the IAR makes to the client. Unsolicited transactions are made when the client direct the trades without advice or counsel from their IAR. For these unsolicited trades, the IAR did not act as the clients IAR and these transactions are the client’s responsibility.

An unsolicited trading pattern indicates that the Aviator/Co-Pilot program account is no longer appropriate for the client as they are not leveraging the advice of their IAR. In these situations, HTS has the right to terminate the Account from the Program. After the client has executed an unsolicited transaction without HTS’ advice, for so long as they hold that position in their Aviator/Co-Pilot Account, HTS will take that asset into consideration:

- as part of the overall account assets,
- when HTS provides the client periodic asset allocation advice,
- when HTS values the client's account holdings,
- when HTS provides analyses and reports on the account's performance, and
- HTS will make recommendations to liquidate the asset, if and when the client's IAR deem it appropriate.

HTS will include any security the client acquires in an unsolicited transaction as part of the account assets for calculating the advisory fee. If the client continues to hold the asset in their 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 the client continues to hold high levels of cash and/or highly concentrated positions, then the client does so against HTS' 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 the client is allowed to hold excess cash or concentrated position in a brokerage account without incurring the Advisory Program Fee. If the account continues to be outside of the cash and concentration guidelines over a specified period, then the account will be subject to removal from the Program.

### **Inactive Accounts**

Aviator/Co-Pilot Program accounts are reviewed on a quarterly basis for trading inactivity for accounts that have been in the Program for over 12 months. If the clients' accounts have had zero trades for the trailing 12 months, their IAR will be notified of the inactivity and if the account does not have trading activity by the end of the next quarter review, the account will be subject to conversion to a brokerage account due to the continued inactivity. The reinvestment of Dividends and Capital Gains are not considered trades for this purpose.

### **Advantage**

The Advantage Program ("Advantage Program") is a non-discretionary mutual fund/exchange traded fund portfolio advisory program sponsored and administered by HTS and made available to select correspondent firms. 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 to provide additional portfolio diversification.

### **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 the firm's 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.
- 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.

The IAR will research and recommend funds from the Eligible Funds List for the 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).

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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.

HTS makes available 5 Advantage Asset Allocation models that the client and the IAR will choose from. The IAR will work with the client to determine a model, the underlying funds and direct rebalancing as needed based on the risk tolerance and profile. The Investment

The service begins with a consultation between the client and the IAR to review the investment objectives, financial circumstances, and risk tolerance(s). The client 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 the client under the Program. The client, with the assistance of their IAR, will be responsible for the selection of investments and for the allocation of Program assets among the various investments identified by HTS. Clients are always free to accept or reject any recommendation from HTS, and the client have the sole authority about the implementation. The client agrees to immediately notify their IAR of any change in the financial situation, risk tolerance or investment objectives.

Unless directed otherwise by the client, Advantage Program assets will be rebalanced as explained below:

**The Rebalancing Process** HTS shall periodically monitor the account and, unless the client has elected otherwise, HTS shall rebalance assets in the account on an as needed basis to maintain the 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. The client's 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. The client can elect to decline rebalancing of the account. If the client declines rebalancing, their asset allocations will likely deviate from the initial allocations and from the risk/return objectives stated in their Client Profile. It is recommended that the client and their IAR create a personalized rebalance methodology.

#### **Advantage Program Fees**

Fees for the Advantage Program are offered on a wrap fee basis, covering all of HTS' execution, consulting and custodial services. Additional fees may be charged by HTS for certain administrative actions such as wire transfers. The maximum Advantage Program 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. The 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 the client makes any single deposit or any single withdrawal of \$10,000 or more of cash and/or securities, the client 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 the account as of the date the client deposits the additional assets into their account, or they 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 bps per year to make the Advantage Program available.

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

The client should be aware that only those mutual fund companies with which HTS has a selling agreement will be available for purchase within the Aviator, Co-Pilot and Advantage Program products, 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 HTS receives from customers. These fees generally range from 0% to .31% (.0031) 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 three hundred fund companies.

The client 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 HTS 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 ASG 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 / Subject to 12B-1 Fees or Sales Charges**

HTS will convert existing advisory fee-eligible mutual fund positions in Advantage Program, Aviator and Co-Pilot 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.

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

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

To the extent that 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 them 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.

## Passport Series SMA/Momentum Pathways UMA

The Passport Series SMA and Momentum Pathways UMA are discretionary investment advisory Programs sponsored by HTS (“Sponsor”), available through its IARs that provides the client access to a broad selection of Separately Managed Accounts (“SMAs”) and Unified Managed Account strategies (“UMAs”). HTS can also allow one or more independent registered investment advisor(s) (“Co-Adviser”) and their IARs (“Co-Adviser IARs”) to offer the Passport Series and Momentum Pathways Programs to their investment advisory clients.

Passport Series and Momentum Pathways are 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 situations 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 section, Envestnet does not collect and report data on investment style and philosophy, past performance and personnel of Model Providers.

In the **Passport Series SMA** Program, the client is offered access to actively managed investment portfolios managed by independent investment managers. Unlike a mutual fund, where funds are commingled, a separately managed account is a portfolio of individually owned securities that can be tailored to fit the stated investing preferences. IARs will work with the client 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 the client’s investment management account. This will also assist the client 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.

The **Momentum Pathways UMA** Program is a discretionary program that provides clients with access to combine a broad selection of investment managers and fund strategists as well as a Co-Pilot account over which their IAR has limited trading discretion in a single portfolio. The IAR will provide the client with recommendations regarding the appropriate asset allocation and underlying investment vehicles or investment strategies to meet their objectives, but the client is 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. The clients’ IAR will assist in creating a customized portfolio, providing the client with recommendations regarding the asset allocation and underlying investment strategies. The client 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 the portfolio such as mutual funds or ETFs. The client 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 the client with monitoring and on demand reporting of portfolio performance on a periodic basis for the Passport Series and Momentum Pathways Program accounts. As described above, if the client selects the Tax Overlay Service within this Program, they will incur an additional cost. Additionally, as described above, if the client selects the Impact Overlay Service within this Program, they will incur an additional cost.

### Passport Series and Momentum Pathways Program Fees

These Programs charge 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. 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 Programs 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 Programs 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 Passport Series and Momentum Pathways 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 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 Program and other factors.*

#### **Additions and Withdrawals from a Passport Series or Momentum Pathways Account**

If the client makes any deposit or withdrawal of \$10,000 or more during a fee period, the client 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 the account on the date the client deposits the additional assets, or the client will receive a pro-rated adjustment of refund of any prepaid fee.

#### **Gateway FSP – Fund Strategist Portfolios**

The Gateway FSP Program is an investment advisory program sponsored by HTS (“Sponsor”) that provides the client access to a selection of Fund Strategist Portfolios (“FSP”) 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). Gateway FSP solutions espouse various approaches to portfolio construction and asset allocation, whereas most Gateway 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”). The IAR will assist the client in selecting one or more FSPs from a roster based on the client’s financial situation, investment objectives and risk tolerance. HTS also provides the client 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, and the investment advisory firms (“Money Managers”) responsible for managing the assets. The FSP will make changes to their underlying Strategies; and periodically can change the Money Managers for the portfolio and/or the allocation of assets to the various Money Managers. At HTS’s discretion, the firm 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 the client.

HTS reserves the right to remove any FSP from the Gateway FSP Program without prior notice to the client. Factors involved in HTS’ decision to remove an FSP include failure to adhere to a management style or the client objectives, a material change in the adviser’s professional staff, unexplained poor performance, dispersions of the account performance, or HTS’ decision to no longer include the FSP on the roster. HTS will determine whether any or all of these factors are material when deciding whether to recommend termination. The client can elect to remove an FSP from their account at any time.

Information HTS collects regarding any FSP, mutual funds, or ETFs is believed to be reliable and accurate, but HTS does not necessarily independently review or verify it on all occasions. While performance results are generally reported to HTS through consultants or FSP on a standard gross of fees or a commission basis, HTS does not audit or verify that these results are calculated on a uniform or consistent basis as provided by a FSP directly to HTS or through the consulting service HTS uses. As described above, if the client selects the Tax Overlay Service within this program, they will incur an additional cost.

Gateway FSP is available through HTS and its IARs. HTS can also allow one or more independent registered investment advisor(s) (“Co-Adviser”) and their IARs (“Co-Adviser IARs”) to offer the Gateway FSP Program to their investment advisory clients.

### Passport Series/Momentum Pathways/Gateway 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 Passport Series/Momentum Pathways/Gateway FSP 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/Strategists, Envestnet also makes available certain Managers/Strategists 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. The client's IAR will recommend and perform their own research on sub-managers and investment vehicles that it believes are most appropriate for the client's 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. The client and the client's 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 Passport Series/Momentum Pathways/Gateway 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. HTS also reviews investment philosophy and process, trading practices, fundamental and quantitative statistics of the strategy. In some cases, HTS will also conduct interviews with portfolio managers, principals and key staff members.

HTS conducts an 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.

### Gateway FSP Program Fees

Fees for the Gateway FSP program are offered on a wrap fee basis, covering execution, consulting and custodial service as well as fees for services for each Investment FSP. Additional fees may be charged by HTS for certain administrative actions such as wire transfers. The maximum Gateway FSP 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 purposes 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 FSPs from 0.15% to .60% annually based on total aggregate client dollars with each FSP. 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 FSPs are not compensated directly from HTS. HTS has a conflict of interest to recommend selections of management styles and advisers that would result in a lower percentage of advisory fees. HTS intends, however, to make all recommendations independent of such fee consideration and based solely on HTS' obligations to consider the client's objectives and needs.

The maximum fee schedule for the Gateway FSP 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 Gateway FSP Account**

If the client makes any single deposit or any single withdrawal of \$10,000 or more of cash and/or securities, they 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 their account as of the date of the deposit of the additional assets, or they 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 (“Compass UMA Program”) is a non-discretionary program that provides the client access to seven risk-based asset allocation models. The IAR will provide the client with recommendations regarding the appropriate asset allocation and underlying investments of mutual funds and ETFs to meet the account objectives, but the client is making the final selection of the investment allocation model and underlying funds and changes made to the Compass UMA Program 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 the client and their adviser. The IARs will assist the client in creating the asset allocation portfolio, providing the client with recommendations regarding the risk-based asset allocation and underlying investments. The client shall select the asset allocation and the investment strategies. The client 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 the client has selected.

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

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

The client’s IAR will research and recommend funds from an eligible funds list for the client’s 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 are removed or new funds are added as deemed appropriate. 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 the client and the client’s IAR will choose from. The IAR will work with the client to determine a model, the underlying funds and select either the required semiannual or annual rebalancing.

### **The Rebalancing Process**

Clients will have the option to either have the account rebalanced semiannually or annually. Envestnet will review all Compass UMA Program based on the client’s selection of semi-annual or annual rebalancing at inception of the account and identify accounts that have not been rebalanced. 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 the client’s target asset allocation among the mutual funds and/or ETFs. The client’s 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 the client directs HTS to raise cash for a withdrawal or the client makes 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 the client will be responsible for any losses that arise from a deposit in error.

Envestnet as the overlay trading manager will be taking discretion when placing the trades directed by the client and their adviser as well as rebalancing the account either semi-annually or annually.

### **Fund Changes**

Changes to the mutual funds and/or ETFs utilized for investment within the Compass UMA Program account will require the clients’ prior consent. All such change requests 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 HTS' execution, consulting and custodial services. The maximum Compass UMA Program 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. The Program fees 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%

The client agrees and acknowledges that other fees may be assessed to the 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 HTS and/or its affiliates may receive 12b-1 fees or other fees from the mutual funds in which client invests.

The client 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 the client makes any single deposit or any single withdrawal of \$10,000 or more of cash and/or securities, the client 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 the client's account as of the date they deposit the additional assets, or the client will receive a pro-rated adjustment or refund of any prepaid fee as of the date of withdrawal.

### Destination Fee-Based Annuity Program

The Destination Fee-Based Annuity Program is a non-discretionary investment advisory program. The program enables the client to receive ongoing investment advice and related services, including custody, and transaction reporting in connection with the Variable or Index Annuity for an asset-based fee ("Platform Fee"). Participation in the Destination Fee-Based Annuity Program may cost the client more or less than purchasing these services separately.

HTS offers the Destination Fee-based Annuity Program through Envestnet Asset Management, Inc. ("Platform Manager"), an unaffiliated registered investment adviser that operates a technology platform. Investment advisory services for the Destination Fee-Based Annuity Program will be provided to the client by HTS and their IAR.

To participate in the Destination Fee-Based Annuity Program, the client will complete and sign an annuity contract from the selected insurance carrier, the Statement of Insurance Selection ("SIS") and the HTS Client Suitability Agreement to establish the annuity contract.

Generally, the client will pay a Program fee based on the accumulated value of the Contract assets. The Contract is the only investment in the Destination Fee-Based Annuity Program. No other securities are allowed to be purchased or otherwise held within the Destination

Fee-Based Annuity Program. Review the chart below and the HTS Destination Fee-Based Annuity Program Annuity Client Suitability Agreement for more information about the contract assets.

The investment options available for assets held in the selected annuity contract are referred to as sub-accounts. The client will also have the option of investing a portion of those assets into a fixed sub-account.

As a shareholder of portfolio(s) invested in a sub-account, the client will pay the proportionate share of the portfolio's underlying expenses, which may include advisory fees and other operating expenses.

### **Destination Fee-Based Annuity Program Overview**

The Destination Fee-Based Annuity Program is designed to provide the client with ongoing investment management and advice for the sub-account investment options of a fee-based variable or index annuity. In some cases, annuities have additional riders available for purchase. IARs will monitor market conditions and the performance of the annuity's sub-accounts and/or market linked indexes and discuss with the client and rebalance as needed. If the client's risk tolerance changes, updates should be made to the risk tolerance selection made for the annuity. In some cases, insurance carriers will, depending upon market conditions, modify the risk exposure of the annuity's sub-accounts which can result in a change to the risk profile of the annuity. The client should carefully review the prospectus for the selected annuity to understand the conditions under which a change to the risk profile will occur and discuss any questions they have with the IAR of record.

### **What is a Variable Annuity**

A tax deferred variable annuity will allow the client and their IAR to determine how assets are invested by choosing from a selection of investments available from the annuity carrier called sub-accounts. These sub-accounts can be made up of a wide variety of investments. As the value of these investments fluctuate based on the ups and downs of the markets, so will the contract value.

Variable annuities have greater growth potential than some other investments but can also lose money. The range of investment options with different risk and growth potential can provide additional flexibility in structuring an investment plan for retirement savings.

### **What is an Index Annuity**

An index annuity is a tax deferred, long-term savings option that provides principal protection in a down market and opportunity for growth. It gives the client more growth potential than a traditional fixed annuity, but with less risk and less potential return than a variable annuity.

Returns in an index annuity are based on the performance on an underlying index, such as the S&P 500. Participation rates of the underlying index will vary by contract.

### **What is a Structured Annuity**

Structured annuities can also be referred to as registered index-linked annuities, variable-indexed annuities, indexed-variable annuities, or buffered annuities. This is essentially a blend of a variable and fixed indexed annuity. Depending on the Insurance Carrier, it may offer more market upside than a fixed indexed annuity.

Structured annuities offer multiple different crediting strategies that let the client choose the balance between growth potential and downside protection. The IAR will help the client narrow these choices down and select a strategy that will help the client reach the individual retirement and legacy goals.

As each crediting period expires, the client has the ability to reallocate to a new type of crediting strategy for a new term. This flexibility allows the client to meet changing financial objectives over the life of the structured annuity.

The IAR must be licensed to sell variable insurance products in the state of residence before presenting the Destination Fee-Based Annuity Program to a client or prospective client. The IAR is required to maintain their license and state registration throughout the life of the account.

Annuities are considered long-term, tax-deferred investments designed for retirement, involve investment risks, and may lose value. Earnings are taxable as ordinary income when distributed. Individuals are subject to a 10% additional tax penalty for withdrawals before age 59 1/2 unless an exception to the tax penalty is met.

The Annuity Accounts are monitored by the IAR at least annually to ensure that the clients portfolio remains aligned with the selected model and the Client Risk Profile, as stated in the SIS. All investment decisions are made and implemented by the client and their IAR. The account statements will be provided to the client quarterly by the insurance carrier.

## **Services**

Destination Fee-Based Annuity Program is a non-discretionary investment advisory program that gives the client access to several variable and index annuity contracts offerings from different insurance carriers. The IAR will help the client develop an asset allocation strategy, select from the sub-accounts or fixed account(s) available from the annuity carrier, and determine how much of the premium to allocate into each of the sub-account(s) and/or fixed account. The IAR has access to a variety of methods and resources to develop a recommended asset allocation strategy.

Due to changing market conditions, the asset allocation among the sub-accounts within the contract may change or deviate from its original allocation. Considering this, the IAR may recommend that the client participate in the automatic asset rebalancing program, which is an option available in most of the offerings. If the client does not choose to participate in the asset rebalancing program, their IAR will recommend that the client rebalance or reallocate the sub-accounts and the fixed account assets. It is solely the client's decision to implement any rebalancing or reallocation recommendations provided by the IAR. The client may also contact their IAR to rebalance or reallocate the Sub-accounts and the Fixed Account assets.

Where permitted by applicable law and business need, the insurance carrier reserves the right to make certain changes to the structure and operation of the contract. These changes include, among others, the right to:

- Remove, combine, or add new sub-accounts at its sole discretion.
- Substitute shares of one portfolio for another, which may have differences including different fees, expenses, objectives, and risks.
- Restrict or prohibit additional allocations, and/or payments to sub-accounts.

Review the annuity prospectus for more information about these changes.

## **Program Account Reviews and Reports**

The insurance carrier will provide custodial statements, and trade confirmations for products purchased through the Destination Fee-Based Annuity Program. The client should review these documents upon receipt and promptly notify their IAR of any discrepancies. Additional information regarding these documents is available below.

## **Account Statements**

The insurance carrier will send the client statements at least quarterly. These statements contain information including, but not limited to, the accumulated value of the contract, the current market value of each sub-account invested in, the amount contained within the fixed sub-account and transaction activity for the previous quarter period.

## **Trade Confirmations**

The insurance carrier will send the client confirmation of each purchase or surrender transaction effected in the contract and/or any other transaction for which it is obligated to send the client confirmation.

## **Destination Fee-Based Annuity Methods of Analysis**

The clients IAR will use a variety of methods and resources to develop a suggested asset allocation strategy for the Program sub-accounts and fixed account assets in the clients Fee-Based Annuity contract.

The clients IAR will research and recommend the sub-accounts from the eligible funds the carrier makes available for their account based on the stated risk tolerance and investment objectives. Each adviser has a different philosophy or criteria in the review and selection of investment products.

## **Fees and Compensation**

Fees and charges differ when a variable annuity is purchased in a traditional brokerage account rather than an advisory program like Destination Fee-Based Annuity Program. Generally, variable annuities that are available for purchase in an advisory account have lower surrender charges than similar variable annuities from the same issuing insurance carrier when the product is purchased in a traditional brokerage account. The difference in surrender charges is largely attributable to the portion of the surrender charge that the issuing insurance carrier would use to pay selling commission to registered representatives in a traditional brokerage relationship. The fee for any optional death benefit riders and/or living benefit riders is generally the same whether the variable annuity is purchased in an advisory account or a traditional brokerage account; selling compensation is not paid to HTS nor IARs if the client selects an optional benefit rider.

Clients that participate in the Program will be charged a quarterly program fee for each Destination Fee-Based Annuity Program contract not to exceed the fee rate from the fee schedule below:

## Destination Fee-Based Annuity Program fee Schedule

Portfolio Value	Maximum Annual Fee
Any Billable Account Value	1.50%

The Program fee will vary among clients and may be negotiable under certain circumstances. Factors typically considered to determine the Client Program fees include:

- The managed account Program(s) the client have selected.
- The amount of assets in the Contract.
- The personal financial needs, objectives, and complexity of the client's financial situation.
- The level of anticipated or actual trading within the Sub-accounts.
- The experience level and credentials of the IAR.

### Calculation of Program Fees

The Program fee is based on the accumulated value of the contract assets as of the last business day of the end of the quarter and in accordance with the Client Agreement.

The Program fee is not deducted from the annuity Program account, but instead it is deducted from a payment account opened at HTS. The payment account is a separate brokerage or ASG account that is linked to the Destination Fee-Based Annuity Program account for the payment of the Program fee.

In addition to the Program fee, the client pays the insurance company the internal expenses for the selected annuity product as disclosed in the annuity's prospectus. Internal expenses for annuity products are borne by all customers that own the annuity and are in addition to the Destination Fee-Based Annuity Program fee the client pays. They are paid directly from the assets in the annuity product as outlined in the products' prospectus and cannot be paid from a payment account.

### Allocation of the Program Fee

A portion of the Program fee is paid to HTS, the clients IAR and the Platform Manager for their services. The amount of the fees paid to the IAR and/or HTS depends upon the Program Fee that the client negotiates with their IAR and the amount of the fee payable to the IAR pursuant to the HTS compensation policies.

### Is the Destination Fee-Based Annuity Program right for the Client

The IAR and/or HTS may recommend to the client one or more Programs. The decision to select one or more managed account Programs is up to the client. A discussion between the client and their IAR, among other things, should include the following to determine if the recommended Program is appropriate:

- The cost, potential benefits, and potential risks of the Destination Fee-Based Annuity Program.
- The clients' investment objectives and sophistication of the investment strategy
- The types of and number of investments the client holds and intends to make, including the percentage of the overall portfolio that the client intends to hold in the fixed sub-account.
- The client's desire for diversification across sub-account(s).
- The client's anticipated use of other services and features specific to the Destination Fee-Based Annuity Program.
- The payment preference of an asset-based fee for ongoing investment advice and other related services compared to a commission-based variable annuity.

At any time, a contract can vary greatly in the size, number and diversity of the sub-accounts held, due to, among other things, market conditions and the current investment needs and objectives. Generally, it is recommended that the client diversify the holdings to help reduce the portfolio's overall market risk.

Investment diversification does not ensure a profit or protect against loss. If the client intends to hold a concentrated portfolio, including a concentrated position in the Fixed Account, for an extended period of time, the client should consider other contract options (i.e., investing in a commissioned based variable annuity) that may be more economically advantageous.

The IAR receives training related to the product offerings in the Destination Fee-Based Annuity Program. Training includes, but not limited to, client needs and suitability of product, expected trading, fee type preference, and desire for ongoing investment advice.

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

HTS, as a registered investment advisor, provides investment advisory services to individuals, trusts, estates, nonprofit organizations, corporations, and other business entities.

The minimum initial investment amount for the Destination Fee-Based Annuity Program is \$25,000.

Margin accounts are not eligible within this Program.

If the client decides to establish an account in the Destination Fee-Based Annuity Program the client will sign a Client Suitability Agreement, which will govern the client's participation in the Program, the insurance carrier's annuity contract, and the Platform Managers Statement of Insurance Selection.

## **Sub-account Selection and Evaluation**

The IARs have access to a variety of methods and resources to develop a recommended asset allocation strategy for the sub-accounts and fixed sub-account assets within the annuity contract.

## **Risks**

Investing involves risks and there is no guarantee that the sub-account options available will achieve the client's stated objectives.

Certain sub-account options may present more risk than others due to the nature and/or complexity of the strategy.

While fixed income portfolios have historically been considered a more conservative investment in comparison to equity portfolios, it is an investment with associated risks that should be considered before investing. A fixed income investor should not expect to experience higher levels of income or yield without assuming some or all the potential risks associated with the underlying fixed income investments. There are various risks associated with fixed income investing, some of the primary risks include credit risk, duration risk, and interest rate risk. Review the annuity prospectus for the sub-account options, which contains more complete information on the investment objectives, risks, charges, and expenses of the portfolio, which investors should read and consider before investing.

## **Voting Client Securities**

HTS, the IAR and the Platform Manager do not vote proxies, nor will they advise the client regarding the voting of the proxies, corporate action or other materials regarding the shares held in the sub-account(s). Review the annuity prospectus for more information about voting privileges and delivery of proxy materials, reports and other materials relating to the sub-accounts.

## **Review of Accounts**

HTS periodically reviews sub-account allocation for the Destination Fee-Based Annuity Program. Reviews may include, but not limited to:

- Certain types of transaction activity or inactivity.
- Sub-account options relative to the client's financial status, investment objectives, and risk tolerance.

Depending on the results of the review, HTS may take certain actions, up to and including the termination of the Program services. As a participating client in the Destination Fee-Based Annuity Program, the client will periodically receive reports from the insurance carrier. These include quarterly statements, transaction confirmations. The client should review these and report any suspected discrepancies immediately to their IAR.

## **Selecting Annuity Riders and Features**

Riders are optional enhancements that are available on the client's annuity contract at an additional cost. They allow the IAR to tailor the contract and provide additional protection of the client's investment. Riders may not be available on all products in the Destination Fee-Based Annuity Program.

## **Living Benefits**

Living benefit riders provide guaranteed lifetime income for the client(and the client's spouse, when elected).

- Can provide guaranteed increases, or roll-ups to the clients benefit base, for future income.
- Offer consistent lifetime payouts that are based on the age when the client begins to take income, or on their younger spouses age, if elected.

## **Death Benefits**

Death benefits allow the client to pass assets to beneficiaries while potentially avoiding the time-consuming and costly probate process. Death benefits may be used to:

- Continue payments or a lump sum to a designated beneficiary.
- Pay for the owner's final costs (such as funeral, burial or estate planning).

Annuity contracts (not specific to death benefits) generally waive surrender charges due to terminal illness or injury.

Most products offer a standard death benefit – often the return of premium. In some cases, there may be an additional fee for this death benefit.

Some annuities offer optional death benefits that let the client lock in the highest contract value (annually or monthly) or a set rate of interest, even if they pass away when performance is down. There are also annuities that offer a spousal protection feature on death benefits.

It is important to note that these riders, in some cases, do have additional costs. Please make sure to discuss the benefits of these riders as well as the costs with the IAR. Additional information about these riders and the costs are found in the annuity prospectus.

## **HTS Program Investment strategies; Eligible and Ineligible Assets**

This Section describes HTS' general policies regarding eligible and ineligible assets in the Advisory Programs.

Specifically, the program permits the Client to hold, but not to purchase, certain assets deemed ineligible in the Programs including but not limited to 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

While these assets are permitted to be held in Program accounts, they will need to be coded as unsupervised and are excluded from the calculations of the clients Program fees due to the additional compensation that HTS receive in connection with those investments. These "Non-billable assets" will not be included when determining the minimum account opening requirement, and they may not be included in the performance reports for the Program.

HTS reserves the right to determine the eligibility of assets in the Program and to discontinue the inclusion of any security for any reason in a client's Program account at any time and without advance notice to you. Any such addition or deletion may also result in a change in the Program fees.

### **Investment strategies**

HTSs employs a variety of investment strategies in connection with the 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 has discretion in some cases to expand the offerings in the 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

HTS has discretion to impose special suitability and investment requirements with respect to these portfolios.

### **Aviator/Co-Pilot Eligible Assets and Ineligible Assets**

HTS requires that the Client hold and purchase only eligible assets in their Aviator and/or Co-Pilot accounts. Generally, with respect to the Program, the client and the IAR have the ability to purchase and sell a broad array of different securities, including any of the following eligible assets:

- Common and Preferred Stocks
- Government, Corporate and Municipal Bonds (agency transactions only) – Investment Grade only in certain retirement plan accounts
- Approved eligible Option strategies
- American Depositary Receipts
- Closed-end funds
- Open-end mutual funds 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 used pay 12b-1 fees.
- Select no-load mutual funds
- Eligible wrap CUSIP UITs
- Eligible ETFs/ETNs
- 
- Public REITs
- Approved Publicly Registered Non-Traded REITs
- Approved eligible Alternative Investments
- Approved Eligible Structured Products (Co-Pilot program only)
- Certain commodities/Futures based Securities Products

### **The following products/strategies are not eligible (“Ineligible Assets”) for HTS’ Advisory Programs:**

- Syndicate Issues/Initial Public Offerings/Brokered CDs
- Short Positions - unless approved
- Solicitation of Low-Priced Securities
- 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 the firm’s Programs. The list can change at any time at HTS’ discretion. Eligibility of investments can vary by program and strategy type. The client should contact their IAR for the list of eligible investments in their specific program.

HTS’ Advisory programs do not offer the ability to conduct principal trades. As such, in these accounts, the client is not permitted to hold, purchase or sell securities that trade only on a principal basis. Currently, the client has access to principal execution in their Advisory account only for tax loss sales transactions in worthless securities in all Programs.

### **Hilltop Holdings (HTH) Stock**

Subject to the exception described below, HTS’ Advisory Programs do not offer HTH stock or HTH securities. HTS does not allow Program Accounts to be funded by depositing HTH stock.

HTS has discretion to allow SMA and UMA Managers in the Passport Series and Momentum Pathways Programs who are not affiliated with HTS to purchase HTH securities for those Accounts (this is limited to the common stock of HTH).

## **Alternative Investments**

Alternative investments, including hedge funds, private markets (real estate funds, private credit, private equity, and interval funds) differ from traditional investment types and give investors access to additional sources of investment return. Alternative investments are generally less liquid than traditional investments, may require a longer investment period, are subject to increased volatility and risk of investment loss. Therefore, alternative investments are not appropriate for all investors.

Alternative investments are restricted to a percentage of the client's total investable assets, based on the client's risk tolerance. Investor qualification requirements also must be met in the case of private placement offerings. Alternative investment funds are limited to the advisory share class/cusip strategies made available through the HTS approved third party investment platform (IAR approval and Client qualification policies and procedures apply).

For the selection of alternative investments for the Aviator and Co-Pilot Program accounts (i.e., hedge funds and certain private market funds), HTS has partnered with a third-party and has established an initial and ongoing due diligence process. The process is designed to help ensure any alternative investments approved for investment allocations or strategies made available for the Programs have been properly researched and are suitable and consistent with the Client's Investment Profile. This process includes, but is not limited to, an initial review of third-party reports, offering documents and marketing materials, in-person meeting and interviews with the fund or fund sponsor's key management personnel, an evaluation of the investment philosophy, process and performance, the general business practice and financials, regulatory compliance and disclosure documents, risk management and strategic planning. The ongoing due diligence process includes, among other things, annual due diligence meetings with the funds or fund sponsors, quarterly information updates and interviews as necessary, and a review of performance and regulatory reporting.

## **Certain Alternative Investment Arrangements and Compensation**

It is imperative that clients work with their IAR to evaluate how a specific alternative investment and its features fits their individual needs, risk tolerance and investment objectives. An important component of this selection process includes carefully reading the accompanying offering documents and/or prospectus prior to making an investment decision. The offering documents contain critical information and risk considerations that will assist clients in making informed investment choices.

It is important to note that the fees and expenses related to alternative investments are often higher than those of more traditional investments. While each investment differs in terms of both total fees and expenses and how those fees and expenses are calculated, the following generally discusses the primary categories of fees and expenses that are common to many alternative investments and the different ways that HTS and the IAR may be compensated.

### **Management Fees**

The manager for any particular investment often charges a management fee that is based on the total value of the investment. As the value of the investment increases, the total management fees the manager receives will increase. Conversely, as the value of the investment decreases, the total management fees the manager receives may decrease. HTS and its IARs are permitted to share in a portion of management fees to which an investment manager is entitled.

### **Incentive-Based Compensation**

Many alternative managers receive incentive-based compensation in addition to management fees. Incentive-Based fees typically involve the manager retaining a percentage of profits generated for clients. Fees related to incentive compensation are often referred to as incentive, performance-based fees or carried interest. The exact calculation of incentive fees or carried interest differs by product and manager. The IARs and HTS are permitted to share in any incentive-based compensation to which an investment manager is entitled. The portion of incentive fee received by the firm can be up to 100% of the incentive fee collected by an investment manager.

### **Upfront or Ongoing Servicing Fees or Placement Fees**

Many alternative investments have upfront costs directly related to compensating an IAR and/or HTS, generally based on the total amount of the investment, up to 5%. Ongoing servicing fees can be as high as 4% of the total value of the investment.

### **Redemption Fees**

Some investments have direct or indirect costs related to liquidating a position, particularly if an investment is liquidated shortly after being purchased or if it is specifically designed to provide limited or no liquidity to investors.

### **Other Expenses**

Alternative investment strategies will be accessed through a variety of legal structures, including mutual funds, limited partnerships, and limited liability companies. In certain structures, particularly for new offerings, investors will incur organization and offering expenses that are related to the creation of the legal structure and marketing of the product. These costs ultimately serve to decrease the amount of the client's investment. Investors also incur other expenses based on the investment activity of the fund. For example, in a Real Estate fund, investors may be charged fees related to the acquisition of

property. In a hedge fund that shorts stock, there are costs associated with establishing and maintaining the short position. Lastly, investors in alternative investments generally bear the cost of certain ongoing expenses related to administration of the product. These expenses could include costs related to tax document preparation, auditing, or the custodial services.

Please refer to the offering documents and/or prospectus for a full recitation of all fees and other expenses that will incur relating to a client's alternative investment. HTS' IAR will answer any questions regarding the total fees and expenses and the initial and ongoing compensation that the IAR, HTS and/or affiliates may receive.

### **Impact of Ineligible Assets in The Client Accounts**

Neither HTS, the clients IAR, SMA/FSP manager will act as an investment advisor with respect to Ineligible Assets. If the client holds Ineligible Assets in the Advisory account and also has a separate HTS commission-based brokerage account, HTS will transfer those assets from the Program account to the HTS commission-based brokerage account in order to facilitate billing and performance reporting. However, the client understands that HTS is not obligated to transfer those assets and the client will remain responsible for monitoring and moving these assets from the Programs. The transfer of Ineligible Assets from the Advisory Program account to the brokerage account will not result in liquidation of the securities or taxable events, commissions, or any other compensation either to HTS or the Investment Adviser. HTS has discretion to terminate the Account.

If the client does not have a separate HTS commission-based brokerage account and decides to hold Ineligible Assets in the Advisory account, the client does so against the firms recommendation and with the understanding that the value of those securities will impact a variety of services offered in the Programs and will be included as part of the account assets for calculating the advisory fee on the last business day of each calendar quarter. Holdings that remain in the account will continue to be part of each fee cycle calculation until the holding is transferred or liquidated, this includes calculations and reporting of performance for the account and calculating the Program Fee and other account billing events, which will result in a higher fee to HTS. These Ineligible Assets can also cause a trade error(s) due to over investment and in this situation, HTS has discretion to terminate the account.

HTS at its discretion will code these ineligible assets unsupervised.

### **Unsupervised Assets**

Under certain circumstances positions in the account will be held as unsupervised assets ("Unsupervised Assets"). These Unsupervised Assets will not be a part of the billing calculation for the Program account and will not be a part of the Account Performance Calculation and will not be subject to ongoing monitoring as long as they are coded as unsupervised.

If an asset is coded as an Unsupervised Asset during a quarterly billing period, the net value of that asset will be excluded for purposes of determining the asset-based Program Fee beginning at the start of the next quarterly billing period, and no portion of the asset-based Program Fee paid by a client in advance for the quarter will be refunded or rebated back to the client.

### **Billing Practices for all Programs**

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

### **Relating Accounts for Billing Purposes**

The client 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 the client chooses a breakpoint fee schedule for the account, the client 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. Clients should ask their 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.

### **Initial Program Fee**

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

### **Quarterly Fee**

After the assessment of the Initial Program Fee, the 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 the client's account in the month following the close of a calendar quarter unless the client has designated another eligible HTS account to pay the Program Fee. The fee is an annual percentage of the account assets—and the client will pay the fee quarterly in advance, pro-rated according to the number of calendar days in the billing period. The quarterly fee for the Destinations Program will be billed in arrears.

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 comprehensive information about the fee charged, please contact HTS or the IAR of record. If the client desires a copy of the most recent form ADV or disclosure brochure document, which outlines HTS's programs, including services and fees, they should contact their 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, HTS will use the fund's net asset value, as computed by the mutual fund company. HTS and/or Envestnet prices securities based on information believed to be reliable. If any prices are unavailable or believed to be unreliable, HTS will determine prices in good faith to reflect HTS' understanding of fair market value.

If the Agreement is terminated prior to the end of the quarter, the client 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.

#### **Fee Rate Changes**

Changes to a fee rate on an Advisory account, whether an increase or a decrease in the Annual rate, must be received by ASG no later than the 20<sup>th</sup> of the month prior to the quarter end. If the request is received after the cutoff date, the new rate will not go into effect until the next quarter billing cycle. The changes will also apply to any contributions or withdrawals over \$10,000 made after the rate change request.

#### **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 the client would receive from the issuer if they 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 the client 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 HTS calculates the Program Fee for alternative investments the client holds in Advisory Accounts based on these estimates.

For purposes of calculating the Program Fee, HTS will use the valuation of alternative investments available/reported as of the billing date. Valuation for alternative investments is often delayed, so only those investments that have at a minimum quarterly valuation 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.

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

## **Program Fees, Compensation, and Other Costs**

For all Programs, the 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. There are additional costs associated with the Destinations Program selection of optional riders, and the Tax and Impact Overlay Services offered on Passport Series SMA, Gateway FSP, and Momentum Pathways UMA Programs.

The client should be aware that commissions or Program fees charged could be higher than those otherwise available if the client were to select a separate brokerage service and negotiate commissions in the absence of the extra advisory services provided. HTS' 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 provides certain services offered by its affiliate Momentum 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.

The client 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. The client 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 the client liquidates securities prior to initiating or after terminating a Program service, the client will be subject to customary brokerage charges with respect to that transaction, in addition to any Program fees that are applicable during the period.

The client's 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 the client paid for these services separately. Therefore, the IAR has a financial incentive to recommend a particular account program over another. In addition, the 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 the client 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. The client should be aware of such arrangements and should consult the IAR for additional details regarding the IAR's compensation levels in fee-based accounts.

While certain account minimums are set for each advisory account Program, the 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 a client pays 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 creates a conflict regarding the achievable 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 the clients 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 the client invests. HTS has an incentive to only offer mutual funds and other investments that make third party payments or enter into revenue sharing agreements with the firm. HTS also has an incentive to recommend these investments to the client because the more client assets that invest in them the more payments and revenue HTS receives. 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 their clients. These revenue-sharing payments also create a conflict of interest because they create an incentive for HTS to invest client 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. . HTS intends, however, to make all recommendations independent of such fee consideration and based solely on the firm's obligation to consider the client's objectives and needs.

**Payments from Structured Product Sponsors.** Purchases of Structured Products in the Co-Pilot Program are not charged any sales commissions; however, clients who purchase Structured Products will pay certain offering costs associated with issuing, selling, structuring, and hedging the products. Such costs are paid to the issuer, and are included in the initial offering price, and disclosed in the offering documents. Therefore, the estimated value of the investment on the pricing date will be less than the original issue price. HTS receives a structuring fee from the issuer for the sale of the Structured Product. The structuring fee that HTS receives varies by product and sponsor, with a range of 0.25% or \$2.50 per \$1,000 dollars purchased to a maximum of 1.25% or \$12.50 per \$1,000 dollars purchased, thus the offering document should be consulted for additional details regarding the structuring fee for any single investment.

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

In general, HTS pays the firm 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 25% to 57.5%. IARs working as part of a team that meets minimum production requirements can qualify for a higher grid rate (but not above 57.5%) than they would receive working as an individual.

HTS reserves the right, at the firm's discretion and without prior notice, to change the methods by which HTS compensates the IAR and employees, including reducing and/or denying production payout and/or awards for any reason.

**Investment Advisory Programs:** For HTS' 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 the IAR is joining HTS from another firm, the client should discuss the reasons their IAR decided to change firms and any costs or changes in services the client incur by transferring their 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, temporary or transitional grid increases in the portion of account fees paid to the clients IAR and various forms of compensation to encourage IARs to join HTS, and are contingent on the IAR's continued employment. Therefore, even if the fees the client pays at HTS remain the same or are less, the transfer of the assets to HTS contribute to the IAR's ability to meet such targets and to receive additional loans and/or compensation even if not directly related to the clients account or the fees the client pays to the firm.

These practices create an incentive and a conflict of interest for the IAR to recommend the transfer of the clients 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. The client should carefully consider whether their IAR's advice is aligned with their 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.

## **Funding the Account**

The client may fund an advisory account by depositing cash and/or eligible securities designated as “eligible” for the Advantage and Aviator/Co-Pilot Programs. The Destinations Program Account must be funded by cash/check for all new purchases.

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 the client funds the account with securities, they authorize and direct HTS, as applicable given the terms of their program, to liquidate those securities on behalf of the client and to allocate the proceeds in accordance with their selected investment style.

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

When liquidating these securities for purposes of establishing the account, HTS will be acting as the client’s broker, not the investment adviser. Liquidations will be affected promptly after acceptance of the account at the then prevailing market prices.

HTS will not be responsible for the liquidations and any consequences due to the client’s failure to notify the firm 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 HTS program should be transferred to a brokerage account. If immediately prior to funding an Advisory account, the client chooses 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, HTS will provide the client with mutual fund prospectuses and other fund information upon a reasonable request from the client. HTS will also assist 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 the client pays directly to the fund company. These fees will be rebated to the account.

The Class A shares available in the HTS 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. The client 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 the 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 Program accounts. The positions should not be liquidated prior to approval in expectation of acceptance into the program. These positions will be reviewed for eligibility on a case-by-case basis by the IA Surveillance Manager and Sales Supervision. If not approved, these positions will need to be kept in a separate brokerage account until the full 12 months has passed or be marked as Unsupervised Assets. This will not apply to positions that transfer into the account from other firms. For the Destinations Program all eligible securities must be liquidated to fund the account.

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

For all advisory programs sponsored by HTS, the client will select the IAR with whom they wish to work with. The IAR will assess prior investment experience, financial goals, time, horizon, risk tolerance and investment objectives to determine the appropriate program for the client.

The client may request that reasonable restrictions be imposed on the management of their account. Reasonable restrictions include the designation of particular securities or types of securities that should not be purchased for the account. If the restrictions are unreasonable or if HTS, or the IAR, believes that the restrictions are inappropriate, HTS has discretion to remove the clients account from the Program.

In some cases, HTS has discretion to liquidate preexisting positions in the portfolio immediately and bring the Account into conformity with the clients target allocations so if the client wishes to hold certain positions for tax and investment purposes, they should consider holding these positions in a separate account.

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

### **Cash Sweep Information**

Effective March 6, 2023, HTS implemented certain changes to the cash sweep program. Specifically, HTS no longer offers money market mutual funds (“MMMFs”) as a sweep option for excess cash held in customer accounts. Instead, excess cash balances will be invested, upon affirmative written consent from the client, only in the firm’s Bank Insured Deposit (“BID”) program, which is an account at a participating bank whose deposits are insured by the Federal Deposit Insurance Corporation (“FDIC”). If the client declines participation in the sweep account program, fail to make a selection by affirmative written consent, or if the client account is otherwise ineligible to participate, the client’s excess cash balances must be retained in an interest-bearing SIPC-insured credit interest program (“CIP”) account held at HTS.

The BID program is an FDIC-insured account that sweeps excess cash to participant banks (including PlainsCapital, an affiliate of HTS) in increments of \$250,000, to achieve FDIC insurance coverage up to \$5 million per account owner (for an individual account) or up to \$5 million per each individual owner of a joint account, up to two owners (e.g., for a joint account with two individual owners – up to \$10 million), depending on the number of participant banks in the program. However, the FDIC insurance limit at any bank applies to all of the customer’s deposits in any capacity at that bank. As a result, clients are responsible for monitoring the total amount of deposits with each participant bank in order to determine the extent of FDIC deposit insurance coverage available. HTS is not, itself, an FDIC-insured depository institution. Rather, the FDIC’s deposit insurance coverage only protects against the failure of an FDIC-insured depository institution, including the participant banks. In order to qualify for this pass-through deposit insurance, HTS is also required to meet certain requirements.

The BID program pays interest at a single rate, to a “tiered” interest rate system, which will pay different rates of interest based on five different deposit tiers. Generally speaking, higher cash deposit balances will receive higher rates of interest than deposits with lower balances. The amount of interest paid will be determined by the amount of interest paid by the banks participating in the program, minus the amount of fees charged by us, as broker-dealer or custodian, in accordance with the following tiers:

<b>Tier</b>	<b>Deposit Level</b>
Tier 1	\$0 to \$49,999.99
Tier 2	\$50,000 to \$249,999.99
Tier 3	\$250,000 to \$499,999.99
Tier 4	\$500,000 to \$999,999.99
Tier 5	\$1,000,000 or more

The applicable interest rate tier will be determined based on the amount of cash available in a client’s brokerage account on a per account basis. Cash available in one brokerage account will not be aggregated to include cash contained in other brokerage accounts a client

holds with the firm for purposes of qualifying for a higher interest rate tier. In other words, the amount of cash available in each specific brokerage account can only be used to qualify for one individual interest rate tier under the BID program.

HTS anticipates receiving fees, including fees for administrative services and other financial benefits, for providing sweep funds to the BID program. HTS anticipates that its affiliate, 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 the BID program because the banks participating in the BID program (including PlainsCapital) have discretion in determining how much interest to pay on BID program 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. Complete sweep account disclosures and a list of the participant banks available in the BID program are available at <http://www.hilltopsecurities.com/hilltop-securities-inc-disclosures/sweep-account-disclosure/>. Also, complete sweep account disclosures are contained in HTS's Customer Information Brochure.

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. HTS does not share any fees received in the BID program or any revenue received in connection with free credit balances with its IARs.

HTS also offers money market mutual funds (of various share classes) to customers on a position-traded basis, which 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.

## Account Requirements and 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
Aviator and Co-Pilot	\$30,000
Compass UMA	\$25,000
Advantage	\$30,000
Passport Series SMA	\$100,000 (Subject to Managers Minimum)
Gateway FSP	\$25,000 (Subject to Managers Minimum)
Momentum Pathways UMA	\$100,000 (Subject to Managers Minimum)
Destinations Fee Based Annuity	\$25,000

### Types of Clients

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 it is determined not to be an appropriate investment strategy for the client.

### 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 HTS acts as the clients Investment Advisor, the firm and the IARs earn more when the client invests more in their advisory account, and HTS earns the same advisory fee rate regardless of how frequently the client trades. HTS also receives payments from third parties, including the investment products in which the client invests, and their sponsors. These third-party fees are disclosed in HTS' 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.

## **Review of Accounts**

Program Services include periodic reviews and monitoring of the clients account by their 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 the client to update HTS with any material changes in their 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. The Insurance Carrier will provide all statements and confirmations for the Destinations Program

## **Performance Based Fees**

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

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

### **Manager/Strategist Selection and Evaluation**

The specific methods of analysis used, and Investment Strategies for each Program are described under each program. HTS uses 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 the clients account for a year or longer. HTS does this when the firm believes the securities to be currently undervalued. This also applies when the firm wants 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 advantage of short-term gains that could be profitable to the client. Moreover, if HTS’ predictions are incorrect, a security could decline sharply in value before the firm makes 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. HTS does this in an attempt to take advantage of conditions that are believed will soon result in a price swing in the securities purchased.

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 the client sells a security they do not own. HTS borrows shares of a stock for the client’s portfolio from someone who owns the stock on a promise to replace the shares on a future date at a certain price. HTS then sells the shares HTS has borrowed. On the agreed-upon future date, HTS buys the same stock and returns the shares to the original owner. HTS engages in short selling based on the firm’s determination that the stock will go down in price after HTS has borrowed the shares. If the stock has gone down since HTS purchased the shares from the original owner, the client keeps the difference. There are certain costs associated with the securities that HTS borrows on the client’s behalf, and they 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 HTS is correct in determining that the price of a stock will decline, HTS runs 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 to 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 the account is approved for margin trading, the client could be required to deposit additional securities or cash on short notice to maintain the position and/or to maintain sufficient assets to meet HTS's requirements. If the client do not meet requirements in the required time frame, HTS has discretion to liquidate all or a portion of the holdings. The client will be liable for any resulting deficit in the account. Margin trading can work against the client, for example, larger losses as well as the potential for larger gains. Before the client begin using margin, please read the "Margin Disclosure" brochure available from the IAR. Maintaining a margin account balance will also increase the wrap fee to the extent of the margin exposure. It is important that the client fully understand the risks involved in trading securities on margin. These risks include but are not limited to the following:

- The client can lose more funds than the client deposits in the margin account.
- HTS can force the sale of securities or assets in the account and in some cases without contacting the client.
- The client will pay interest on the outstanding margin loan balance.
- The use of margin can have a positive or negative performance effect, 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 the 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 the client higher-than-market-rate interest rate for margin loans. HTS has the right to loan to third parties the securities pledged to secure the 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 the debit balance, and HTS has 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 HTS Customer Information Brochure.

## **Options**

Certain types of option trading are permitted in order to generate income or hedge a security held in the Aviator/Co-Pilot program; namely, the selling (writing) of covered call options or the purchasing of put options on a security held in the Program account. The client 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 a 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. The client should read the "Characteristics and Risks of Standardized Options" brochure provided by their IAR. There are costs associated with options trading, and the client agrees to pay such costs.

## **Risk of Loss**

The client should understand that all investments involve a certain amount of risk. Investment performance can never be predicted or guaranteed and that the values of the accounts will fluctuate due to market conditions and other factors. The client 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, the account. The client should further understand that the client is assuming the risks involved with investing in securities and other investment products and should understand that the client could lose all or a portion of the amount held in the account(s).

Below are some of the common risks the client should consider prior to investing. This list is not a complete enumeration or explanation of the risks involved, and the client should consult with the IAR and the 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 the client owns 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 health, 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 the 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 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 Clients 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:** 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, inflation 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. The client 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 the clients 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.
- **Structured Products Risks:** Structured products are a hybrid between two asset classes (typically in the form of a note or CD) but instead of having a predetermined rate of interest, the return is linked to the performance of an underlying asset class. Investing in structured products involves special risks, including, but not limited to, risks associated with derivative instruments. Other risks may include market risk, management and securities selection risk, investment objective and asset allocation risk, equity market risk, fixed income securities risk, credit risk, foreign issuer and investment risk, emerging market risk, commodities risk and currency risk. Structured products are complex investments that entail specific risks. As a result, they are not suitable for all investors.
- **Alternative Investment Risks:** Generally speaking, alternative investments employ various investment strategies for hedging and other speculative purposes and may also utilize techniques such as short selling, leverage, derivatives, and options, which can increase volatility and magnify the risk of investment loss. Alternative investments are therefore considered speculative and may involve a high degree of risk. These risks are potentially greater than and different from those associated with traditional equity or fixed income investments. Concentration in a few alternative investments further magnifies these risks. Please refer to the offering documents and/or prospectus and discuss the associated risks further with HTS' IAR. Alternative investments, including hedge funds, private equity, alternative mutual funds, non-traditional ETFs, managed futures, real estate investments, private credit and interval funds may present unique risks, such as decreased liquidity and transparency and increased complexity. The use of derivatives involves multiple risks. In addition, to the extent the alternative investment uses commodities as part of its investment strategy, the investment return may also vary as a result of fluctuations in the supply and demand of the underlying commodities. Real estate and related investments will be subject to risks generally related to real estate, including risks specific to geographic areas in which the underlying investments were made. Certain alternative investments may be less tax efficient than others. Each alternative investment is typically subject to internal fees including but not limited to management and/or performance fees, which affect the investments' net asset value and reduce the return that the Client will realize with respect to the investment. Additional risks may include, but are not limited to, style-specific risk, credit risk and lower quality debt securities risk, equity securities risk, financial services companies' risk, interest rate risk, non-diversification risk, small and mid-cap company risk and special risks of mutual funds and/or ETFs.
- **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.

## **Voting Client Proxies**

HTS will not vote on matters requiring shareholder voting in connection with the securities held in the 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 the client's behalf, HTS will promptly forward such material to the clients attention. HTS does not offer advice regarding proxy voting; this is the sole responsibility of the shareholder. With respect to the

Passport Series, Momentum Pathways and Gateway FSP Programs, Envestnet and/or third-party investment managers with discretion vote the proxy. To obtain information on how their securities were voted by each sub-manager, the client should contact 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 Advisory Services Manager and the Chief Compliance Officer ("CCO") of HTS.

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

### **Information Provided to Envestnet**

When the client establishes an Advisory Services Group Program account, HTS will send various information about the client and the account to Envestnet (including the name, address, date of birth, account assets, whether or not the account is taxable, state/country of residence, the client's Statement of Investment Selection, any applicable restrictions and the account activity). Upon acceptance of the account, Envestnet will forward the foregoing information on to the Envestnet Manager in order for the Envestnet Manager to effectively manage the account. Model Providers are not provided with client specific information, except for the brokerage number, account size and information about the IAR. In some cases, HTS sends the Envestnet Manager duplicate brokerage statements and/or confirmations.

## **Client Contact with Portfolio Managers and Insurance Carriers**

The IAR will be the primary point of contact for addressing any questions or concerns relating to the managed account. If the client is enrolled in a program that employs an unaffiliated third-party Investment Manager, Strategist or Insurance Carrier, HTS imposes no limitations on a client's ability to consult their Investment Manager(s), Portfolio Strategist(s) or Insurance Carrier directly, but the client is encouraged to first contact their IAR.

## **Account Termination**

Investment advisory services may be terminated by either party at any time. Upon termination, the client is responsible for monitoring and managing the securities in their portfolio, and they will be subject to customary brokerage charges. HTS, the client's 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 the account. Such refunds will be pro-rated based on the number of days remaining in the calendar quarter for which the client prepaid a fee.

If the client should choose to terminate their participation in any of HTS' Programs, the firm can liquidate the account at that time if instructed to do so. If so instructed, HTS will liquidate the account in an orderly and efficient manner. HTS do not charge for such redemption; however, the client should be aware that certain mutual funds impose redemption fees as stated in their fund prospectus. The client should also keep in mind that the decision to liquidate security issues or mutual funds has tax consequences that should be discussed with their tax advisor.

## **IAR Termination from the Programs**

HTS retains the authority to remove any IAR from the Programs at any time and to transfer day-to-day management responsibility of the client's account to another HTS IAR or Branch Office Manager in certain situations, at any time without first notifying the client or obtaining their consent. In most cases this will result in the termination of the advisory agreement and the need to establish an advisory agreement with newly assigned IAR. Under certain circumstances a new advisory agreement will not be required.

## **Disciplinary Information**

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

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 security 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, 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, 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 broker-dealer 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.

In July 2021, HTS reached a settlement with the Securities and Exchange Commission for failing to reasonably supervise a registered representative in connection with retail order periods for negotiated new issue municipal bonds. Between January 2016 and April 2018, HTS personnel obtained bonds for trading inventory accounts by placing orders with a co-managing underwriter during the retail order period. The retail order period is designed to grant first priority to retail investors for new issue municipal bonds. By placing the orders in this manner, the senior managing underwriter was unaware that bonds were being purchased for trading inventory accounts. HTS agreed to a \$85,000.00 civil penalty, \$206,606 disgorgement, \$48,587 prejudgment interest, a censure and cease and desist injunction.

### **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
- Hilltop Securities Insurance Agency, Inc., a licensed insurance agency

HTS, through its affiliation with Hilltop Securities Insurance Agency (“HSIA”), 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 the firms’ 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 the client for the purpose of generating commissions. The client is under no obligation to purchase products or services recommended by HTS or IARs of HTS in connection with any advisory service that the firm offers.

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 Passport Series SMA, Momentum Pathways UMA, Advantage and Gateway FSP programs. MIN offers the Passport Series and Momentum Pathways Programs 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 from 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 the client pays. As such, IARs have incentive to sell the client commissionable products in addition to providing them with advisory services when such commissionable products may not be suitable. Therefore, a conflict of interest exists between their interests and the clients’ interests. While HTS’ securities sales are reviewed for suitability by an appointed supervisor, the client should be aware of the incentives HTS has to sell certain securities products, and they are encouraged to ask the firm about any existing or potential conflict of interest. Please be aware that the client is under no obligation to purchase products or services recommended by HTS or IARs of HTS in connection with providing the client with any advisory service that is offered.

The client may obtain information about the 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 HTS’ 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 to clients.

## 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.

## 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.

## Marketing Support from Product Sponsors

**HTS has agreements with certain mutual fund families, alternative investment sponsors, insurance companies, investment managers, ETF sponsors, investment managers, UIT sponsors, and Turnkey Asset Management Program providers. Products from these companies are available on the firm's platform. These companies may contribute funds to support IAR education programs.** These contributions are used to subsidize the cost of training seminars offered to IARs through specialized firm-wide Programs and regional training forums. These training forums are designed to provide training and education of IARs Investment Advisers, Field Leadership, Supervisors, and other personnel who solicit or support the business listed in the brochure. These contributions also subsidize a significant portion of the costs incurred to support the IAR, IAR and Client education, and product marketing efforts conducted regionally and nationally by product specialists employed by HTS. The training events can, and often, include a non-training element to the event such as business entertainment which is not subsidized by vendors.

Not all vendors contribute to HTS’ education efforts. Neither contribution towards these training and educational expenses, not lack thereof, is considered as a factor in analyzing or determining whether a vendor should be included or should remain in Programs offered or on the platform. Contributions can vary by a vendor and event. In some instances, the contributions per vendor are significant. Certain vendors contribute at levels other than those requested by the firm. Some vendors make additional contributions in connection with specialized events or education or training forums. The HTS IAR does not receive a portion of these payments. However, their attendance and participation in these events, as well as the increased exposure to vendors who sponsor the events, tends to lead IARs to recommend the products and services of the vendors as compared to those who do not.

## Non-Cash Compensation

HTS and its IARs receive non-cash compensation from these vendors in the following ways:

- Sponsorship of educational events the IAR conducts for Clients and prospective Clients.
- Contributions made at The Firm level towards educational Programs for IARs. These contributions are significant and while the IARs do not receive a portion of the payment, a conflict arises in that the IARs participation in the educational events are exposed to vendors who sponsor the events and tend to lead the IARS to recommend the products and services of these vendors.
- Various forms of marketing support and development of tools used by HTS and its IARs for training, practice management and record-keeping purposes.
- Occasional gifts up to \$100 per vendor per year.
- Occasional meals, tickets, or other entertainment of reasonable and customary value. The thresholds and limits for gifts and entertainment are designed to mitigate conflicts related to recommending the products of the providers of such gifts, meals, or entertainment.

The receipt of the cash and non-cash compensation from sources other than clients, and the differences in the way IARs are compensated for products the firm offers, creates an incentive for IARs to recommend certain products and account types over others. Conflicts of interest are addressed by maintaining policies and procedures requiring the IARs act in the Client’s best interest, reasonably supervising their activities and by disclosing these conflicts to clients so that clients can make an informed decision.

## Brokerage Practices – Best Execution

HTS renders investment advice to its clients on a non-discretionary and discretionary basis, pursuant to client's advisory agreement. In HTS's advisory programs the client 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 client accounts. 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 than at some other broker-dealers. This directed brokerage agreement is reflected in the client's 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 affect these transactions, HTS's primary objective is to seek prompt execution of orders at the most favorable prices reasonably obtainable. Sub-managers in the Passport Series, Momentum Pathways and Gateway FSP Programs 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 affected 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 the 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 the Clients' 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 the firm's 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 HTS' 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 Passport Series, Momentum Pathways or Gateway FSP Programs 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 affected 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 can be higher or lower than the price the client would have received had the transaction been affected 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, a sub-manager typically manages institutional accounts that are 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 affect 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 Passport Series, Momentum Pathways and Gateway FSP 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 could 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 to 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 will not be able to process the trades on the same day that notice is received as time limitations due to market closing and receiving the trade late in the day. Best efforts are made to execute trades same day, but in some cases, it may be the next business day that the markets are open.

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

### **Code of Ethics**

HTS has adopted a Code of Ethics that governs a number of potential conflicts of interest the firm has when providing HTS' advisory services to the client. HTS' Code of Ethics is designed to ensure that the firm meets the fiduciary obligations to the client and to foster a culture of compliance throughout HTS.

HTS' Code of Ethics is comprehensive and is designed to help the firm detect and prevent violations of securities laws and to help ensure that HTS keeps the clients' interests first at all times. HTS distributes the firm's Code of Ethics to each supervised person at HTS at the time of their initial affiliation with HTS; the firm makes sure it remains available to each supervised person for as long as they remain associated with HTS; and the firm ensures that updates to the Code of Ethics are communicated to each supervised person as changes are made. HTS' 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 HTS is an underwriter or selling group member). Even though HTS is permitted by contract or by law to do so, as a matter of policy, the firm generally does not execute principal trades or agency cross transactions in the advisory programs. Although in some instances, HTS can provide a more favorable market price to the client if HTS participates in principal trade or an agency cross transaction with client accounts, HTS does so only when consistent with the firm's obligations to seek best execution, due to regulatory requirements, when executing such

transactions. Therefore, the client will not have access to new issues or syndicate offerings in these accounts. The client may make such purchases in a retail brokerage account, and they 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, the firm will provide specific disclosures and obtain the client's consent. HTS relies on codes and restrictions in the 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 has the discretion to effect 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. HTS effects these transactions only when HTS determines that the transaction to be in best interests of both clients and at prices, HTS has determined to reflect their value.

The client should understand that, to the extent permitted by applicable law, HTS can in transactions involving the clients 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 affected 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 the broker or agent by purchasing or selling securities from or to one of the firm's brokerage customers, HTS obtains the clients written consent and will provide them 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, HTS will provide the client with a written disclosure statement identifying the total number of such Agency Cross-Transactions for their 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 will not affect Agency Cross-Transactions between clients if HTS has recommended the security to both clients. Such Agency Cross-Transactions have a potential of conflicting division of loyalty and responsibility regarding both parties to the Agency Cross-Transaction. Such transactions are 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, HTS will seek to obtain the best execution for each of the firm's advisory clients.

## **Custody**

Generally, HTS will maintain custody of assets in the client's account. When HTS acts as custodian, the client will be provided an account statement in any month in which there is trading or other activity in the 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.

The Insurance Carrier will be the custodian of assets in the Destination Program account. The Insurance Carrier will provide the client with account statements and confirmations of transactions.

Per SEC Rule 206(4)-2, HTS has implemented a set of controls designed to protect those client assets from being lost, misused, misappropriated or subject to the Advisers' financial reverses in an effort to ensure that client assets are protected. Among other things, the firm undergoes a separate examination by an independent auditor, the purpose of which is to obtain the auditor's report on our internal controls designed to safeguard clients' assets held at HTS. HTS also undergoes an annual surprise audit by an independent registered accounting firm that is designed to verify the clients' assets. At the conclusion of the annual surprise audit, the independent auditor files a report with the SEC attesting to, among other things, HTS compliance with regulatory requirements.

For those third parties that HTS uses for certain Programs may also serve as qualified custodians of the firm's client assets. In such cases, consistent with applicable regulations, the firm is provided with a report issued by an independent registered public accountant relating to the third parties' internal controls in connection with its custody services.

## **Investment Discretion**

In the Passport Series and Momentum Pathways Programs, the client authorizes and directs the platform manager to delegate discretionary authority to each manager selected. For Aviator/Co-Pilot –discretionary accounts, the client delegates discretionary trading authority to the IAR. The Gateway FSP Program is a discretionary program where the FSP determines the asset allocation and directs 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 the client's investment policy statement and the assets allocation detailed within the statement. This is the responsibility of the client, and the client should consult with the legal and tax advisors for matters regarding the 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 HTS debit fees more than six months in advance of services rendered.