

HILLTOP SECURITIES INDEPENDENT NETWORK INC.
INVESTMENT MANAGEMENT GROUP

Advantage

Supervisor/Adviser
Guide

Investment Adviser Use Only
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This guide is provided to help you understand the structure and function of the Advantage account and the procedures for establishing an Advantage account for your clients. You should carefully read the Advantage account Client Agreement so that you will understand you and your client’s contractual obligations. If, after reading these materials, you still have questions or need additional information, please contact the Investment Management Group (IMG) at (214) 859-6735.

About the Advantage Account

The Advantage account is a fee-based account featuring a selection of Exchange-Traded Funds (“ETFs”) and no-load and load waived mutual funds. The Advantage account combines investor profiling, asset allocation, professional investment management and on demand performance reporting. For a simple annual fee, deducted on a quarterly basis from the account, clients will receive an Investment Adviser Representative (IAR) managed portfolio of ETFs and mutual funds that are rebalanced as necessary to maintain the account’s original allocation.

Registration Requirements

Investment advisory fees may only be paid to advisers who are duly registered IAR of the Hilltop Securities Independent Network Inc. (HTIN) Registered Investment Adviser (RIA). IARs must be registered under the HTIN RIA in every state in which they solicit or open an Advantage account. Any IAR of HTIN who participates in Advantage Program is required to meet the appropriate states’ regulatory requirements which may include an administered exam or an approved designation. For registration information, please contact Licensing/Registration at (214) 859-5105 or email at Registration@hilltopsecurities.com.

Soliciting Clients or Prospects

BEFORE ANY SOLICITATION of clients or prospective clients, IARs must be registered under the HTIN RIA in every state where they intend to conduct such solicitation. The IAR should provide a copy of the prospectus when recommending a mutual fund or ETF to a client or prospect. Only approved marketing materials may be used and must be accompanied by the HTIN Disclosure Brochure and the IAR’s ADV Part 2B Form when distributing them to clients or prospects.

Minimum Account Size

The minimum initial account size of an Advantage account is \$30,000 in billable assets or as accepted. Please be aware that certain mutual fund companies have their own minimum fund account balances. IARs should be aware of and abide by these minimums. The minimum account size requirement may be waived if an account falls below due to market fluctuation only.

Advisory Fees

NOTE: Breakpoints are not incremental. The maximum fee that may be charged in an Advantage account is 1.75% based on \$249,999 and below. There are also minimum fees that must be charged. See below.

Asset-based fees (Total Annual Fee) are charged to the client’s account quarterly, in advance, based on the account’s previous quarter end market value, and are credited to the IAR’s production (IAR Gross Fee).

FEES CHARGEABLE ON		
ETF AND MUTUAL FUND ASSETS		
Account Value	Administrative Fee	Maximum Annual Fee
\$30,000 - 249,999	0.20%	1.75%
\$250,000 - 499,999	0.15%	1.50%
\$500,000 – 999,999	0.15%	1.25%
\$1,000,000 and up	0.15%	1.00%

Fees are negotiable at the discretion of the IAR. All discounting is deducted entirely from the IAR Gross Fee. Any variance from the fee schedule on the Client Agreement should be noted directly on the agreement adjacent to the fee schedule or in the margin, which should be signed/initialed by both IAR and client.

Accounts opened during the quarter will be charged a pro-rated amount based on the number of days the account was open during the quarter. If the client contributes or withdraws \$30,000 or more after the inception of a calendar quarter, the

quarterly fee will be recalculated and pro-rated as of the day of the change in investment. This will be calculated at the beginning of the proceeding quarter.

Eligible Funds

IMG makes available a list of eligible mutual funds and ETFs that you must select from when creating the client's portfolio. IMG considers several factors when determining which "funds" are eligible for the list and the IAR should not consider that any fund on the list is being endorsed or recommended by IMG for the use with clients. IARs should conduct their own research and have their own rationale as to the funds they and their client ultimately choose for investment. It is the IAR's responsibility to continuously monitor the portfolio to recommend and make any Mutual Fund/ETF changes that are warranted. For a list of the eligible mutual funds and ETFs, visit the HTIN website at <http://www.hilltopnetwork.com/>. Only eligible funds should be used in the Advantage Program. For additional fund specific information, please refer to each mutual fund and ETF's prospectus.

Suitability

In the Advantage Program the IAR must analyze and review each client's individual financial situation, investment objectives, time horizon, risk tolerance and any other factors deemed pertinent to the particular situation to identify a set of mutual funds and Exchange Traded Funds believed to be suitable for the client. The IAR should also take steps to ensure that they are apprised of any changes through client contact. The process typically begins with the IAR and client completing a Client Profile Questionnaire in order to develop an investment program that strives to meet the client's goals and objectives. The information is analyzed and an investment strategy is recommended. The overall strategy proposed by the IAR should include asset allocation and investment style recommendations.

Portfolio Advice

IARs giving investment advice to clients and using the tools provided by IMG have a fiduciary responsibility to give suitable investment advice to all clients at all times. The IARs are expected to know their clients and are to determine that the advice provided and risk/return objectives are suitable and in the clients best interest. As an IAR, you should not make assumptions about the client or their circumstances and must always put the interest of the client ahead of the firm and of your own.

For each Managed Account, the IAR, along with the client, create an asset allocation investment plan based on the responses to the Client Profile Questionnaire. This questionnaire helps to determine the client's risk tolerance, investment time horizon, level of investment knowledge and the investment objectives of the assets to be invested in the account, as well as document any restrictions the client wishes to impose on the management of their account. You should provide the client with a copy of the completed questionnaire. A separate questionnaire must be completed for each account that a client maintains.

Advice Documentation

IARs are encouraged to document, on an ongoing basis, the advice that they provide their clients. This advice can be electronically documented and stored using the "Contact Management" Module in CSS or any other means that may be used for advice documentation. IARs, as part of client contact, should review the clients' Performance Reports, Fund Company available research as well as the account statements and discuss with the client any changes in the their circumstances that might affect investment strategy decisions. Significant changes in a client's circumstances may require completion of a new Client Profile Questionnaire which may change how the portfolio is managed. Part of the IAR's fiduciary responsibility is to provide fair and equitable treatment for all clients. For this reason, client contact cannot be based on the merits of performance, the account fee structure or any other type of appearance of preferential treatment by the IAR. The IAR should create a methodical client contact process to ensure that all clients receive the same treatment and are all routinely contacted.

Annual Account Reviews

Each IAR participating in the IMG platform is required to conduct and document an annual account review with each client that has an account with IMG. Documentation of the annual review should be kept in the client file.

Setting Up an Advantage Account

IARs may either open a new account to be designated as Advantage or you may convert an existing account to an Advantage account. To open a new account:

1. Complete the customary New Account documents.
2. Once the standard paperwork has been completed, IARs and clients should complete the Client Profile and select the asset allocation model based on your client's risk tolerance score. It is important that during the account set up process you make sure the Client Profile is consistent with the New Account application. Inconsistencies should be corrected. Accounts subject to ERISA will be reviewed for eligibility on a case by case basis.
3. Once the allocation has been determined, select the mutual funds and ETFs to implement in the portfolio.
4. Complete the Client Agreement using the information gathered in steps 2 and 3. Be sure to list the ETFs and mutual fund(s) selected for each asset class on the Fund Selection Form. The IAR and client(s) must sign the Client Agreement and the Fund Selection Form before submission for processing.
5. All completed documents should be sent to IMG (Please see Important Phone Numbers).
6. A completed Adviser Checklist must be sent to IMG.

The OSJ should complete a **30 day look-back**. Any trades thirty (30) days prior to the date the client signed the Advantage account agreement, should not include commissions or sales credits, except those to offset ticket charges exactly. Any trades in the previous thirty (30) days that have been charged to the customers must be cancelled and rebilled to reflect that no charges were made to the customer. [Note: This policy does not apply to loads or sales charges related to mutual fund purchases or redemptions, as the reversal of these charges may be a violation of the fund's prospectus.] OSJs must attest to their look-back on the Adviser Checklist.

The use of margin, check writing and debit cards should not be used in Advantage accounts.

If converting an existing account, the account cannot contain any securities other than those included in Advantage. Any account submitted that contains securities other than those in the Advantage Program will be returned to the IAR. Prior to submitting paperwork to IMG, please confirm the accuracy of all of the documentation. Any trade error resulting from an incorrect and/or omitted account number or fund selection will be the responsibility of the IAR.

Account Updates

It is the IAR's responsibility to continuously monitor the portfolio to recommend and make any Mutual Fund/ETF changes that are warranted. Any Mutual Fund/ETF change requests must be submitted via the Fund Change Form and faxed to (214) 859-5639. Once a Fund Change Form is received, IMG will respond via email with receipt notification or that a request has been received and processed. If the form is received by IMG prior to 1:00 pm, the request will be processed same day. If the request is received after 1:00 pm, it will be processed by 1:00 pm the following business day. Large volume requests may not be able to be accommodated on same day and in some cases may take several trading days.

Asset Allocation Model Change

If the IAR and client wish to make a change in the Asset Allocation Model they must complete a new Client Profile/Portfolio Update form and Fund/ETF Selection Form and fax to IMG at (214) 859-5639. Once an Allocation Change is received, IMG will respond via email with receipt notification or that a request has been received and processed. If the form is received by IMG prior to 1:00 pm, the request will be processed same day. If the request is received after 1:00 pm, it will be processed by 1:00 pm the following business day. Large volume requests may not be able to be accommodated on same day and in some cases may take several trading days.

Portfolio Rebalancing

IMG shall periodically monitor the account and, unless elected otherwise by the client, rebalance assets in the account on an as needed basis to maintain the client's target asset allocation among the Mutual Funds and/or ETFs. Portfolios are reviewed periodically to identify any allocation deviations that may trigger a further review of the individual portfolio. The review may or may not result in an immediate rebalance of the portfolio. Rebalancing will be

accomplished by selling the shares of the over-weighted funds and purchasing a corresponding dollar amount of the appropriate underweighted funds, providing that the sale and the purchase are each in an amount over \$25 or an amount as determined by the sponsor. IMG reserves the right to change the rebalancing percentage measure or the minimum dollar amount of individual rebalancing transactions. The client may elect to decline automatic rebalancing of the account. If auto rebalancing is declined, the asset allocations may deviate from the initial allocations and from the risk/return objectives stated in your profile. It is recommended that you and your client create your own rebalance methodology.

Performance Reports

Comprehensive Performance Reports that provides a summary of the accounts asset allocation, a summary reconciliation, time-weighted performance data, holdings with cost basis and a schedule of realized gains/losses well as other Portfolio reports are available in CSS and can be found under “Performance Reports” from the Main Menu. It is your responsibility to review these reports for accuracy.

Summary of Proxy Voting Policies

Clients retain the right and obligation to vote any proxies relating to the securities held in their Advantage accounts. Neither the IAR nor HTIN may exercise voting discretion or have any input regarding voting decisions made on the clients’ behalf for the securities held in this Program.

Class Action Policy

IARs are not authorized to take any action on notices to clients affecting their securities, such as: class action notices, tender offers, odd-lot solicitations and bankruptcy actions. In all IMG Programs such notices and related materials must be promptly forwarded to the client for any action the client deems appropriate.

IAR Compensation

Fees are deducted from the client accounts during the first month of each calendar quarter and are based on the previous quarter end market value of the account. Accounts opened or closed during the quarter will be charged pro-rated to the number of days the account was open during the quarter. Fees will usually be deducted between the 1st and 15th of the month and will be credited to the IAR’s gross production, before the end of the production month.

Closing an Advantage Account

If a client wishes to terminate his or her Advantage agreement, please notify IMG immediately. If the account is terminated before the end of a calendar quarter for which fees have been prepaid, a pro-rated refund, based on the number of days remaining in the calendar quarter, will be credited to the client’s account. The IAR will be debited for the pro-rated refund. If the client wishes to have all positions liquidated, please make sure these instructions are included in the account closing instructions. Liquidation requests received by IMG prior to 1:00 pm will be processed same day. If the request is received after 1:00 pm, it will be processed by 1:00 pm the following business day.

IAR Termination

When an IAR who managed client assets in IMG accounts leaves the firm, the account(s) should be immediately converted from the IMG platform to a retail brokerage account. If termination is prior to the end of the calendar quarter, the advisory fee will be pro-rated to the termination date, and a refund of the prepaid fee will be issued. The departing IAR will be debited for the pro-rated refund. If the day-to-day management of the brokerage account is reassigned to a properly registered IAR, the new IAR must notify the client(s) and complete a new Client Profile and Client Agreement to be submitted to IMG to establish a new advisory relationship with client(s).

OSJ Supervision

OSJs are the primary supervisors for IARs and their IMG Advantage accounts. The OSJ must be knowledgeable about the responsibilities of the IARs as well as his or her supervisory responsibilities. All parties must also be knowledgeable of HTIN’s Policies applicable to the Advantage account as well as with regulatory requirements.

The OSJ is responsible for making sure the IARs follow all IMG and firm policies and procedures.

- All marketing and advertising needs to first be reviewed by the OSJ and then sent, as needed, to the Retail Sales Supervision Manager and Compliance.
- New Accounts procedures—Ensure forms are accurate and complete.
- Quarterly Account Reviews—Work with IMG to do an analysis of accounts and determine if additional reviews are necessary.

New Account Supervisory Procedures

It is the OSJ's responsibility to supervise the Advantage accounts. The OSJ will review and approve all new accounts with special attention being paid to:

- The Client Profile and suitability of strategy chosen based on clients objectives, risk tolerance and financial goals. Inconsistencies between the client profile and New Account application on file should be corrected.
- Determine that the managed account is in client's best interest versus a traditional commission brokerage account.
- Ensuring the fee percentage is allowable within Program fee guidelines and approve any exceptions.
- Verifying that the client and IAR have signed and dated the applications.
- An account inquiry should be completed to ensure that no commissions, markups or sales credits have been charged in the last thirty (30) days. If charges are discovered, these trades must be canceled and rebilled with no charge to the client.
- Complete the OSJ attestation on the Adviser Checklist.

Account Reviews

Each OSJ is responsible for supervising its managed accounts. On a daily basis the OSJ or delegate is responsible for reviewing customer transactions using the Protegent Surveillance (ProSurv) System. Quarterly account reviews should be completed and documented in conjunction with the IA Surveillance Manager reviews.

The OSJ's review of the account should include (but is not limited to):

- Discussion with the IAR.
- Analysis of the activity in the account; Suitability of transactions.
- Direct communication (i.e., telephone calls or letters) with customer, if needed.
- Ensuring that the IAR documents any conversations with the customer through a follow up letter or, at a minimum, place a note in the file describing the substance of the conversation.
- Review of the performance statements.

Daily Supervision

It is the OSJ's responsibility to review the daily trades of IMG accounts to ensure suitability and consistency with firm policy. IMG will work with the OSJ in uncovering any portfolio violations.

All trades in Advantage accounts are to be done by the IMG Trading Associates. Trade requests are made by the IAR at the inception of the account using the Fund Selection Form or after inception using the Fund Change Form. Liquidation requests should be sent directly to IMG for processing. Portfolio rebalancing, if selected by the client, is completed by the IMG Trading Associates as well. The IMG Trading Associates review the Advantage accounts that have submitted trading requests on a daily basis as well as trade day plus one to verify that all trades are matched to the trading requests submitted and that the mutual funds and/or ETFs are eligible.

Quarterly Supervision

The IA Surveillance Manager will perform quarterly evaluations of Advantage Accounts using the statistical performance reports that are created by IMG. These evaluations may be sent to OSJs who should then forward to the Advantage IAR for additional research and review for suitability. Any actions taken should be documented by the OSJ and/or IAR. Particular attention should be paid to:

- **Performance:** Underperforming/Outperforming accounts should be reviewed and cause should be determined. Check for inconsistencies with the management of the account versus the Client Profile Questionnaire.
- **Investment Objectives:** Review to make sure that the objectives are consistent with the Client Profile Questionnaire and that the strategy is suitable. If it is determined to be out of line, the account should be updated and a new questionnaire completed to reflect the changed objectives.
- **Account Type:** Confirm that the IMG account is still in the client's best interest versus a traditional commission based account or other IMG Program.

In conjunction with the quarterly evaluations, Performance Reports including holdings with cost basis and asset allocation, Transaction reports, Realized and Unrealized Gains/Losses are available in CSS and the "Performance Reports" tab. The OSJ and IAR may use these reports as well as the various other reports available as tools to perform regular reviews of the accounts and model portfolio selected for the client. If it is determined a change of portfolio is needed, the client and IAR will need to either complete a Fund Change Form or Client Profile/Portfolio Update form.

Important Phone Numbers and Addresses

Main Address:

Hilltop Securities Independent Network Inc.
Attn: Investment Management Group
1201 Elm Street, Suite 3500
Dallas, TX 75270

Investment Management Group Contacts:

Client Services: (214) 859-6735
Fax: (214) 859-5639
Email: img@hilltopsecurities.com



IAR Acknowledgement

I have received and read a copy of the Supervisor/Adviser Guide for Advantage accounts and agree to abide by its content. I understand that failure to follow the procedures as documented may result in an administration fee (per incident) plus any costs incurred by the firm to correct incidents (which will be charged to my production).

IAR Signature

Print Name

Office

Rep Number

Date

NOTE: The Investment Management Group must receive this form before your first **Advantage** account can be activated. If you have any questions, please contact the Investment Management Group at (214) 859-6735. Please send this form to:

*Hilltop Securities Independent Network Inc.
Attn: Investment Management Group
1201 Elm Street, Suite 3500
Dallas, TX 75270*

You can also fax this form to (214) 859-5639



Supervisor Acknowledgement

I have received and read a copy of the Supervisor/Adviser Guide for Advantage accounts and agree to abide by its content.

Supervisor Signature

Print Name

Office

Rep Number

Date

NOTE: The Investment Management Group must receive this form before your first **Advantage** account can be activated. If you have any questions, please contact the Investment Management Group at (214) 859-6735. Please send this form to:

*Hilltop Securities Independent Network Inc.
Attn: Investment Management Group
1201 Elm Street, Suite 3500
Dallas, TX 75270*

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