

# ADV Part 2A Disclosure Brochure

*March 31, 2022*

This ADV Part 2A ("Brochure") provides information about the qualifications and business practices of HoyleCohen, LLC ("HC"). If you have any questions about the contents of this Brochure, please contact HC's Chief Compliance Officer, Heather England, at (858) 576-7300. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

HC is a Registered Investment Adviser ("RIA"). Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser simply provide you with relevant information to use in evaluating an Adviser in the process of considering whether to hire or retain them.

Additional information about HC is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by an identifying number, known as a CRD number. The CRD number for HC is 141125.



We build more than just financial plans. *We build futures.*

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## 2. Material Changes

The following changes have been made to this Brochure since its last annual filing on March 31, 2022, as defined by SEC rules and requirements:

- a) HC engages independent solicitors to provide client referrals. HC may receive such client referrals from Zoe Financial, Inc. through its participation in the Zoe Advisor Network (ZAN). If a client is referred to HC by a solicitor, it is disclosed to the client in writing by the solicitor and HC pays for this service out of its own funds. Clients referred to HC by a solicitor will not be charged any fees or costs in excess of HC's standard fee scheduled offered to other clients. Further information on HC solicitor's arrangements is available in Item 14 of this Brochure.

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## 4. Advisory Business

HC has been providing advisory services (through it and its predecessor) since 2001.

As of December 31, 2021, HC managed \$3,236,699,572 in assets on a discretionary basis within its standard investment platform. In addition, HC had \$210,308,321 in assets either in transition or outside of its standard platform as of this date.

HoyleCohen serves its client in a fiduciary capacity. This means that HC acts on behalf of its client by putting its clients' interests ahead of its own, with a duty to preserve good faith and trust. Being a fiduciary thus requires HC both legally and ethically to act in the best interests of its clients.

As a fiduciary, HC has duties of care and of loyalty to its clients and is subject to obligations imposed by federal and state securities laws. As a result, clients have certain rights that cannot be waived or limited by contract. Nothing in HC's Advisory and Wealth Management Agreement ("AWMA") should be interpreted as a limitation of its obligations under the federal and state securities laws or as a waiver of any unwaivable rights the client possesses.

### a) **Advisory & Wealth Management Services**

HC provides wealth advisory services on a discretionary basis which include, among other things: the management of individual equity and fixed income securities, mutual funds and ETFs that have been recommended and approved by the HC Investment Committee Advisory Board ("IC"). HC also permits non-discretionary accounts and client-imposed restrictions on certain investments in limited or special circumstances. In addition, HC conducts due diligence on and recommends external investment managers and/or private investment strategies and may facilitate investment in such programs for clients for whom these investments are appropriate. A client's investment with an external manager is managed via a sub-advisory agreement, whereby HC allocates authority to the external manager to allocate client assets. In the case of certain private investment funds and other investment programs, while HC may make recommendations to the client, investment ultimately requires the client's explicit and affirmative authorization.

HC allocates a client's investment assets among various asset classes and securities in accordance with the client's specific goals, time horizon and investment constraints. In furtherance of this goal, HC may use various tools to evaluate portfolio designs. HC works with new clients to develop a plan for transitioning assets from their existing allocations to the portfolio recommended by HC. Each client's portfolio is periodically reviewed and rebalanced or adjusted when deemed appropriate. HC interacts with each client regularly via meetings, phone calls, video conferences, emails and other means of communication to ensure each client's needs and objectives are appropriately reflected in the portfolios HC manages on their behalf.

b) **Wealth Management and Financial Planning**

HC helps clients understand their total wealth picture through the Wealth by Design process. HC works with clients to review their net worth and total investable assets on a global level, irrespective of the portion of those assets that HC has been retained to manage. This may include services such as:

- Income tax and estate tax planning
- Retirement and college financial planning
- Family legacy planning
- Personal cash flow analysis
- Risk and insurance analysis
- Charitable intent and capacity
- Design of retirement plans and trusts
- Business interest/sale or real estate sale/rental analysis
- Special investment program due diligence and monitoring
- Coordination and oversight of family wealth plan execution ('loose ends')

As part of these services, HC clients have access to a secure client portal which allows them to view information about their investment assets including holdings, values and asset allocation, and provides an electronic vault for valuable wealth-related documents like wills, trusts, tax returns, insurance documents and financial plans, among other things.

HC also offers new clients an opportunity to engage in an initial planning process through which an individualized financial plan is developed and discussed. These initial services are typically performed for a separate planning fee that is determined based on the scope of the engagement and work required. Subsequent planning services are included in HC's ongoing advisory fee. Projects beyond routine advisory services may be performed as needed for a separate fee as agreed in advance by HC and the client.

HC cannot and does not replace or represent the client beyond discretionary wealth management. HC will help oversee, advise on and coordinate implementation of HC's planning recommendations, and HC will execute the transition of client assets from their existing investments to those recommended by HC if they so choose. Actual implementation of HC's planning recommendations is left to the client's discretion. Other professionals representing a client – attorneys, accountants, insurance agents, other advisors – may need to be involved in the implementation of some of the recommendations presented to the client by HC. HC suggests clients work closely with these professionals to implement pertinent aspects of their plan. HC is available to make recommendations of trusted professionals and to coordinate with clients' other trusted advisors.

Over 90% of HC's revenue are attributable to billings for continuous advisory and wealth management services with less than 10% attributable to one-time advisory services including, but not limited to: initial planning or special projects.

c) **Investment Consulting**

HC provides investment management and/or advisory services to a limited number of employer-sponsored, self-directed retirement plans. Depending upon the needs of the plan, HC may serve as a 3(38) discretionary investment manager or a 3(21) nondiscretionary advisor. HC may also provide additional consulting services to assist the plan sponsor in meeting its fiduciary obligation as the plan's Named Fiduciary. HC does not serve as the plan's Named Fiduciary.

d) **Sub-Advisory Engagements**

HC is engaged as a sub-advisor by Aspire Retirement Solutions ("Aspire") to assist them in providing investment management services to their clients. HC does not have a direct relationship with the individual clients of that firm, but only with Aspire itself. As such, HC does not undergo client suitability analysis of the portfolio allocations recommended to Aspire, and it remains Aspire's sole responsibility to determine whether HC recommendations are appropriate for each of their clients. HC's obligation is limited to management of the allocated assets consistent with the objective and/or strategy designated by Aspire. If Aspire selects the custodian/broker-dealer for its clients, HC is unable to negotiate commissions and/or transaction costs, and/or seek better execution. As a result, Aspire clients may pay higher commissions or other transaction costs, experience greater spreads or receive less favorable net prices on transactions than would otherwise be the case through alternative clearing arrangements recommended by HC. HC is compensated a percentage of AUM on client accounts in which Aspire elects to employ HC portfolio recommendations.

HC is also engaged as a sub-advisor by GroupIRA: IRA Services ("GroupIRA") to assist them in providing investment management services to their IRA clients. HC does not have a direct relationship with the individual clients of that firm, but only with GroupIRA itself. As such, HC does not undergo client suitability analysis of the portfolio allocations provided to GroupIRA. HC's obligation is limited to management of the allocated assets consistent with the objective and/or strategy designated by GroupIRA. If GroupIRA selects the custodian/broker-dealer for its clients, HC is unable to negotiate commissions and/or transaction costs, and/or seek better execution. As a result, GroupIRA clients may pay higher commissions or other transaction costs, greater spreads or receive less favorable net prices on transactions than would otherwise be the case through alternative clearing arrangements recommended by HC. HC is compensated a percentage of AUM on client accounts for which GroupIRA elects to employ HC as investment advisor.

e) **ERISA Plan Clients**

HoyleCohen is a fiduciary under the Employee Retirement Income Security Act of 1974, as amended ("ERISA") with respect to investment management services and investment advice provided to ERISA plan clients, including plan participants. HC is also a fiduciary under section 4975 of the Internal Revenue Code (the "IRC") with respect to investment management services and investment advice provided to individual retirement accounts ("IRAs"), ERISA plans, and ERISA plan participants. As such, HC is subject to specific duties and obligations under ERISA and the IRC that include, among other things, prohibited transaction rules which are intended to prohibit fiduciaries from acting on conflicts of interest. When a fiduciary gives advice in which it has a conflict of interest, the fiduciary must either avoid or eliminate the conflict or rely upon a prohibited transaction exemption (a "PTE"). HC also provides non-fiduciary services to ERISA plan participants in the form of education during open enrollment.

f) **Focus Credit Solutions**

We offer clients the option of obtaining certain financial solutions from unaffiliated third-party financial institutions with the assistance of our affiliate, Focus Treasury & Credit Solutions, LLC ("FTCS"), a wholly owned subsidiary of our parent company, Focus Financial Partners, LLC. Please see Items 5 and 10 for further discussion of these services and other important information.

## 5. Fees & Compensation

a) **Fees for Advisory & Wealth Management Services**

Prior to providing advisory and wealth management services, HC agrees on the fee arrangement with each client, which will vary. Most clients pay HC annual fees based on assets under management ("AUM"). Some clients pay HC an annual flat fee. These fees include the ongoing advisory services described above as they pertain to each client's situation. Client fees based on AUM are generally determined according to the following fee schedule, however some legacy clients may pay fees calculated based on a different fee schedule. HC reserves the right to charge a minimum fee, reduced fee, or no fee.

<u>Total Assets Under Management</u>	<u>Annual Fee</u>
On the first \$500,000	1.50%
On the next \$2,500,000	1.00%
On the next \$2,000,000	0.80%
All assets over \$5,000,000	0.60%

HC charges clients on a quarterly basis. When calculating fees on accounts based on a percentage of total AUM, the value of the assets on the last day of the prior period is used. Cash and cash equivalents are included in the calculation of AUM for the purpose of assessing fees, as are accrued and unpaid interest, if applicable. The quarterly percentage is one fourth of the annual percentage and is charged in advance.

HC has internal processes for auditing and validating the accuracy of its fees, but each client is responsible for independently verifying the accuracy of the fee calculation and it is strongly recommended that clients review statements from their designated custodian. Fees may be prorated in the first partial quarter or the last quarter of the relationship, subject to HC's discretion. Lower fees for comparable services may be available from other sources.

HC may offer a discounted fee or waive fees entirely for employees of the firm and family members of firm employees.

b) **Fees for New Client Planning Process or Special Projects**

Fees for up-front or in-depth services will be charged as a fixed fee, typically ranging from \$3,500 - \$10,000 depending on the nature and complexity of the circumstances and work involved. Up to 100% of this fee may be due upon signing an agreement with HC. As described above, existing clients may require services outside the scope of the ongoing advisory services. If so, clients will be charged a mutually agreed-upon fixed fee for those services. In all instances, fees and the timing of payment are agreed to by the client in advance. These fees do not replace HC's Wealth Management and Advisory Fee, or non-HC costs related to underlying investments or custodians as described in this Brochure.

Either HC or a client may terminate an advisory relationship at any time, for any reason, upon giving written notice. No fee is ever paid more than six months in advance for work that has not been completed. HC may amend client fees upon advance written notice to the client, subject to the client's right to terminate HC's services at any time by providing written notice.

c) **Focus Credit Solutions**

We offer clients the option of obtaining certain financial solutions from unaffiliated third-party financial institutions with the assistance of our affiliate, Focus Treasury & Credit Solutions, LLC ("FTCS"). FTCS is compensated by sharing in the revenue earned by such third-party institutions for



serving our clients. For non-mortgage loans, FTCS will receive up to 0.50% annually of outstanding loan balances. For mortgage loans, FTCS will receive a one-time payment of up to 1.00% of the mortgage loan amount, up to 0.50% annually of outstanding loan balances, or a combination of the two. FTCS's earned revenue is indirectly paid by our clients through an increased interest rate charged by the financial institutions or, for cash balances, a lowered yield. The amount of revenue earned by FTCS for these financial solutions will vary over time in response to market conditions, including the interest rate environment, and other factors such as the volume and timing of loan closings. The amount of revenue earned by FTCS for a particular financial solution will also differ from the amount of revenue earned by FTCS for other types of financial solutions. Further information on this conflict of interest is available in Item 10 of this Brochure.

## 6. Performance-Based Fees & Side-by-Side Management

HoyleCohen does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client). All fees are calculated as described above and are never charged on the basis of income, capital gains or capital appreciation of the assets or any portion of the assets of an advisory client. As disclosed under Item 4, HC may utilize sub-advisers in its management of client accounts. The decision to recommend any external manager or any investment remains with HC, however the decision to participate in any investment remains with the client. Certain sub-advisers selected by HC may charge performance-based fees, however, HC does not share in any such performance-based fees.

## 7. Types of Clients

HoyleCohen provides advisory services primarily to individuals, pension plans, profit-sharing plans and charitable organizations. HC may also provide wealth management services for corporate and individual retirement plans, Native American Indian tribes, and investment management and/or advisory services to employer sponsored, self-directed retirement plans. HC requires a minimum of \$1,000,000 in aggregate investment for new clients. HC reserves the right to waive its stated minimums or charge a minimum annual fee for accounts that fall below this amount.

## 8. Methods of Analysis, Investment Strategies, & Risk of Loss

### a) **Investment Approach**

The HC investment approach combines a blend of investment strategies into a proprietary investment platform called **CorePlus**. All platform investments made or recommended by HC under

the terms of this agreement have been assessed, reviewed and approved by the HC Investment Committee and the applicable research subcommittee. The Advisory Board, composed of HC Advisors and Financial Planners, oversees the Investment Committee to ensure that its investment recommendations and actions are in the best interests of HC's clients. The intent is to delegate investment related decisions to an experienced investment committee.

The CorePlus investment platform consists of various building blocks that are available to Advisors to create portfolios for each client they serve. The 'Core' portion of HC's CorePlus investment platform consists of a diversified mix of mutual funds, ETFs, individual equities and bonds, and often represents the majority – and in some cases, all – of a client's investment assets. Many clients choose to supplement the core by investing in one or more alternative strategies. The result is a variety of customized portfolios that have been designed to position each client for financial security and wealth accumulation with the goal of meeting individualized objectives over the long term.

The Investment Committee includes HC Advisors who serve clients and is led by staff whose primary duties include investment-related research and recommendations. The IC studies various sources of research to assess potential asset class return, risk and correlation to inform our asset allocation recommendations over a multi-year planning horizon. As conditions change, HC may allocate more to asset classes believed to be undervalued and less to rapidly appreciating asset classes that are deemed overvalued. Adjustments will also be made if allocations become misaligned relative to client risk targets or policy.

Security selection and ongoing diligence is performed by our research subcommittees which include the Individual Security Subcommittee, the Fund Subcommittee, and the Alternatives Subcommittee. Subcommittee approval is required to add investments to the HC platform and subsequently recommend them for use in client portfolios. Our subcommittees select individual investments based on a number of factors, including quantitative and qualitative analyses. Investments are also evaluated with respect to their tax consequences and may be allocated to taxable or tax-deferred accounts in an effort to minimize overall tax impacts. The advice of tax counsel is sought when it is deemed necessary. A host of research tools and services, including Morningstar for mutual fund analysis and Factset for individual securities, are used.

The Individual Security Subcommittee of the HC Investment Committee is responsible for direct oversight of the firm's individual security program. These portfolios may incorporate large, medium and small capitalization stocks, value and growth opportunities as well as individual bond positions, as appropriate. Our strategy is both economically and fundamentally derived, as we pursue well positioned companies in healthy, growing industries that have good management, sensible business plans, and attractive valuations. Bottoms-up fundamental analysis includes review of corporate balance sheets, income statements, cash flow statements, and earnings estimates.

HC may incorporate bonds into client portfolios in an effort to reduce overall volatility and/or provide portfolio income. Recommendations vary depending on individual client circumstances and can include those rated investment grade or high yield, and may also consist of U.S. Treasury, Government agency, municipal, or corporate bonds. Their allocation, maturity distribution, and quality are based on an assessment of the underlying economic and market environment, projected interest rate trends and specific client needs.

The Fund Subcommittee of the HC Investment Committee is responsible for direct oversight of the firm's mutual fund, ETF and Separately Managed Account programs. A combination of quantitative and qualitative analysis is used in the review, selection, and termination of investment managers. Quantitative review may include an analysis of historical performance and risk both on an absolute basis and relative to peers. An assessment of cost relative to alternatives is strongly considered. Qualitative analysis may include an assessment of the organizational and compensation structure of the parent company, fund investment strategy and process and people-related factors such as the reputation and tenure of leadership. This analysis focuses on how well positioned the firm is to maintain positive attributes, and correct areas of struggle. We seek to understand what risks the manager is taking and if those risks are being reasonably mitigated. The driving focus is sourcing strong investment offerings that are cost-effective.

The Alternatives Subcommittee of the HC Investment Committee is responsible for direct oversight of the firm's investments in specialized strategies which make up the 'Plus' portion of the CorePlus platform. These strategies include, but are not limited to, private credit, private equity, real estate, and other real assets which may provide diversification and/or access to income and growth opportunities not readily available in the public markets. Initial due diligence for these types of investments routinely involves several months and many hours of collaborative internal review. The due diligence process includes a structural, strategic, administrative, performance, risk, legal and reference review. For a manager and/or strategy to be included on the investment platform it requires unanimous subcommittee approval. Once the manager is approved, HC provides ongoing diligence and oversight for its clients, conducting quarterly calls with each fund manager, and performing on-site visits. These strategies may have limited liquidity and are only recommended based on strict suitability criteria.

The Portfolio Oversight Subcommittee of the HC Investment Committee is responsible for oversight of the implementation of investment programs, definition of allocation guidelines, and communication of assumptions to be used in the financial planning process. The subcommittee monitors flows between investment programs, portfolio deviation from approved risk or standard models, and provides tax management support to Advisors.

HC builds portfolios for each client based on a set of risk/return assumptions and asset allocation parameters. The end goal is to create portfolios for each client that are designed to optimize the

likelihood of goals-driven outcomes based on that client's individual objectives and tolerance for risk.

b) **Participant Directed Retirement Plans**

The investment recommendations made for participant-directed retirement plans are overseen by our Fund Subcommittee. Investments are selected based on an assessment of quantitative and qualitative research from a host of respected sources, with a focus on sourcing strong investment offerings that are cost-effective for participants. HC will perform consistent and routine due diligence on investment managers and investment choices with the purpose of reviewing and rebalancing portfolio offerings. The decision to remove a particular investment offering from a portfolio is generally associated with significant and insurmountable changes in the operation, the risk adjusted performance of the manager, or in the converse, the availability of a significantly better alternative. Terminations rarely happen quickly and are the result of a methodical process that begins with a manager being placed on a watch list. A holding may be placed on watch as the result of triggering the outer bounds of quantitative and/or qualitative limits like a change in ownership, professional personnel, inadvertent or decided change in investment style or strategy, or increased volatility that could meaningfully impact performance. After careful assessment, a manager on the watch list may remain on watch, be removed from the portfolio, or placed on probation. If placed on probation, the HC Fund Subcommittee will determine what factors must improve to keep the manager engaged, or whether a manager should be terminated. As an investment fiduciary, there are some circumstances in which it would be inappropriate for HC to fail to act. For example, a significant shift in investment strategy and style of a meaningful portfolio component could shift the overall allocation of a portfolio outside of policy tolerances. If an investment manager is faced with what has been determined to be a significant and insurmountable challenge, the HC Fund Subcommittee will recommend replacing that manager as soon as reasonably possible.

HC is process-driven in its analysis and is as focused on how a manager obtains results as the ultimate results themselves. HC is compensated a percentage of the assets held in any Plan for which HC provides investment management and/or advisory services. The exact percentage is dependent on whether or not HC provides employee education as part of its services to the Plan.

c) **Risk of Loss & Other Investment Risks**

Investing involves risk of loss that clients should be prepared to bear

All investments present the risk of loss of principal. There is a risk that the value of securities (mutual funds, ETFs and individual bonds and stocks), when sold or otherwise disposed of, may be less than the price paid for the securities. Even when the value of the securities sold is greater than the price paid, there is the risk that the appreciation will be less than inflation. In other words, the purchasing power of the proceeds may be less than the purchasing power of the original investment.

Among the most speculative mutual funds and individual securities used in HC's investment strategies funds are those with exposure to small capitalization and growth-oriented equities. Certain investments utilized by HC may contain international securities. Investing outside the United States involves additional risks, such as currency fluctuations, periods of illiquidity and price volatility. These risks may be greater with investments in developing countries.

High yield and emerging market debt have a higher degree of credit risk than conservative fixed income securities which have lower risk of loss of principal. However, most bonds (with the exception of Treasury Inflation Protected Securities, or TIPS) present the risk of loss of purchasing power through lower-than-expected return. This risk is greatest for longer-term bonds.

As part of its advisory services, HC may recommend investments into direct real estate, residential mortgage-backed securities, private lending, Master Limited Partnerships (MLPs) and other private funds or special account programs. Because many of these strategies concentrate their investments in areas associated with the real estate industry, they may be exposed to some concentration risk. Additional risks that investors should be aware of include credit risk, prepayment risk, possible illiquidity, and default risk, as well as increased susceptibility to adverse economic developments.

#### Risks specifically associated with alternative investments

HC offers a host of alternative investments to its clients based on suitability. HC believes the non-traditional asset classes accessed by private funds, interval funds and tender funds offer the potential for diversification and superior risk-adjusted returns. These funds typically have limited liquidity and investors may not be able to redeem their capital when desired.

HC works diligently to identify opportunities, select proven managers and negotiate favorable terms for its clients (such as reduced fees, redemption penalties and/or minimums) that are often unavailable to retail investors.

Allocations to individual strategies vary by client suitability and circumstance but can collectively represent a meaningful portion of a client's total account portfolio. HC has strict guidelines and procedures for determining and monitoring allocation to these strategies individually, by manager and overall.

Each alternative investment exhibits its own unique set of characteristics, risks and rewards, and thus will not be suitable for all investors. Some investments have additional suitability requirements such as Accredited Investor, Qualified Client or Qualified Purchaser status as determined by the SEC, which HC also considers before making recommendations to clients. Advisors will determine which alternative investments, if any, are suitable for a particular client by comparing their individual risk profile and investment needs to the risk/return features of each alternative investment.

### Risks specifically associated with structured products

HC's Structured Products Program provides a way for HC to offer clients unique risk/return characteristics not broadly available through more conventional investment strategies. HC works directly with major banks to issue structured products designed to its specifications.

Every structured product will not be suitable for all investors. Each structured product exhibits an entirely different set of characteristics, risks, and rewards. It is possible individual clients may not participate in all structured products HC researches or offers. Advisors will determine which products, if any, are suitable on a client-by-client basis by comparing each client's risk profile and investment needs to the risk/return features of each structured product. While it is the intent of HC to hold most structured products until maturity, the ability to buy or sell allows HC to lock in gains or mitigate additional risks prior to maturity. Each structured product will have a prospectus and pricing supplement that contains a detailed explanation of risks, tax treatment, and other relevant information about a given offering. This information will be distributed by the custodian to all clients that participate in any given offering.

Structured products are unsecured corporate debt issued by banks. Like traditional corporate bonds, they are subject to the risk of issuer default. They carry the credit rating of the issuing bank and participate equally (*pari passu*) with the issuer's other unsecured and unsubordinated obligations. However, barring any issuer credit incident, the terms of each structured product typically result in performance that is tied to other underlying indices and thus are not highly correlated with traditional bonds. For instance, the payout of a structured product might be linked to the performance of an underlying equity index, such as the S&P 500 Index. In addition, the same structured product might absorb some of the downside movement in that index in order to mitigate risk while also limiting or capping the maximum return through the product's stated maturity. The issuing bank typically creates the desired performance characteristics of each structured product by buying and/or selling a set of option positions.

While structured products may be new to many investors, the strategies and tactics behind them are similar to those in more widely used investment products. The structured products HC incorporates into its portfolio allocations have risk/return features which are subject to ongoing scrutiny by the HC IC to ensure they are suitable for the client and appropriate for the potential investment environment during the life of the product.

#### d) **Cybersecurity**

The technology systems, networks and devices used by HC and vendors who provide services to HC and its clients employ a variety of protections designed to prevent damage or interruption from computer viruses, network failures, computer and telecommunication failures, infiltration by unauthorized persons and security breaches. Despite the various protections utilized, systems,

networks and devices do bear the risk of breach, and client could be negatively impacted as a result of such a cybersecurity breach.

Cybersecurity breaches can include unauthorized access to systems, networks, or devices; infection from computer viruses or other malicious software code and attacks that shut down, disable, slow, or otherwise disrupt operations, business processes, or website access or functionality. Cybersecurity breaches may cause disruptions and impact business operations, potentially resulting in financial losses to a client, impediments to trading, the inability by HC and other service providers to transact business, violations of applicable privacy and other laws, regulatory fines, penalties, reputational damage, reimbursement or other compensation costs or additional compliance costs, as well as the inadvertent release of confidential information.

Similar adverse consequences could result from cybersecurity breaches affecting issuers of securities in which a client invests, governmental and other regulatory authorities, exchange and other financial market operators, banks, brokers, dealers, and other financial institutions and other parties. In addition, substantial costs may be incurred by these entities in order to remediate prevent any cybersecurity breaches in the future.

HC devotes significant resources to cybersecurity in an effort to mitigate these risks. With regard to the technology systems themselves, periodic testing (including penetration testing and vulnerability scanning) are performed regularly. HC engages IT professionals for 24/7 network monitoring, as well as specific Dark Web monitoring. HC has also established procedural controls to address the issue of cybersecurity. The firm performs annual due diligence on all vendors with access to client data and completes compliance and accounting controls testing annually. In addition, HC staff training focuses heavily on cybersecurity and data protection.

e) **COVID Risk**

The transmission of COVID-19 and efforts to contain its spread have resulted in border closings and other travel restrictions and disruptions, market volatility, interruptions to business operations, supply chains and customer activity and quarantines. With the widespread availability of vaccines, the U.S. Centers for Disease Control and Prevention has revised its guidance, travel restrictions have started to lift, and businesses have reopened. However, the COVID-19 pandemic continues to evolve, and the extent to which our investment strategies will be effected will depend on various factors beyond our control, including the extent and duration of the impact on economies around the world, and on the global securities and commodities markets. Volatility in the U.S. and global financial markets caused by the COVID-19 pandemic may continue and could impact our firm's investment strategies.

Although there has been no significant impact on HC's business operations up to this point, the COVID-19 outbreak – as well as future pandemics – could negatively affect vendors on which our firm and clients rely and could disrupt the ability of such vendors to perform essential tasks.

## 9. Disciplinary Information

Investment Advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of HC or the integrity of HC's management. Neither HC nor any of its Advisors have been the subject of any material legal or disciplinary events applicable to this item.

## 10. Other Financial Industry Activities & Affiliations

### a) Sub-Advisor Relationships

As disclosed under Item 4, HC may select other sub-advisers on behalf of clients for management of specific investment strategies or styles. HC only selects unaffiliated investment advisers as part of this process, and in addition to the fee (management and/or performance-based) charged by the sub-adviser to the client, HC charges a management fee as agreed to with the client in the advisory agreement. As HC does not share in any fees charged by a sub-adviser, the potential conflict of interest inherent in such arrangements does not exist.

### b) Focus Financial Partnership

As noted above in response to Item 4, HC is part of the Focus Financial Partners, LLC ("Focus") partnership. As such, HC is a wholly owned subsidiary of Focus Operating, LLC ("Focus Operating"), which is a wholly-owned subsidiary of Focus. Focus also owns other registered investment advisers, broker-dealers, pension consultants, insurance firms, and other financial service firms (the "Focus Partners"). The Focus Partners provide wealth management, benefits consulting and investment consulting services, to individuals, families, employers, and institutions. Some Focus Partners also manage or advise limited partnerships, private funds, limited liability companies or investment companies as disclosed on their respective Form ADVs.

HC's clients are not solicited to invest in any other Focus Partners' advisory services, and generally Focus Partners do not recommend securities, services, or other investment products of other Focus Partner firms, unless so disclosed on their respective Form ADVs and with the clients' informed consent, nor are any transactions executed through another Focus Partner's affiliated broker dealer. Further, the Focus Partners do not market their services or share client information amongst each other without prior client consent. Management of other Focus Partners are not involved in the management of HC.

HC does not believe the Focus partnership presents a conflict of interest with its clients. HC has no business relationship with other Focus Partners that is material to its advisory business or to its



clients. All related investment advisers and broker dealers and additional information about Focus can be found at [www.focusfinancialpartners.com](http://www.focusfinancialpartners.com).

c) **Focus Treasury and Credit Solutions**

We offer clients the option of obtaining certain financial solutions from unaffiliated third-party financial institutions with the assistance of our affiliate, Focus Treasury & Credit Solutions, LLC ("FTCS"), a wholly owned subsidiary of our parent company, Focus Financial Partners, LLC. These third-party financial institutions are banks and non-banks (the "Network Institutions") that offer credit and cash management solutions to our clients. Certain other unaffiliated third parties provide administrative and settlement services to facilitate FTCS's cash management solutions. FTCS acts as an intermediary to facilitate our clients' access to these credit and cash management solutions.

FTCS receives a portion of the revenue earned by the Network Institutions for providing services to our clients. For non-mortgage loans, FTCS will receive up to 0.50% annually of outstanding loan balances. For mortgage loans, FTCS will receive a one-time payment of up to 1.00% of the mortgage loan amount, up to 0.50% annually of outstanding loan balances, or a combination of the two. FTCS's earned revenue is indirectly paid by our clients through an increased interest rate charged by the Network Institutions for credit solutions or reduced yield paid by the Network Institutions for cash management solutions. For clients of certain affiliates of Focus Financial Partners, LLC, FTCS has agreed to waive the earned revenue that it receives, which results in a lower interest rate on lending solutions or a higher yield on cash management solutions for those clients. The amount of revenue earned by FTCS for these financial solutions will vary over time in response to market conditions, including the interest rate environment, and other factors such as the volume and timing of loan closings. The amount of revenue earned by FTCS for a particular financial solution will also differ from the amount of revenue earned by FTCS for other types of financial solutions. Such fees are also revenue for our common parent company, Focus Financial Partners, LLC. Accordingly, we have a conflict of interest when recommending FTCS's services to clients because of the compensation to our affiliates, FTCS and Focus. We mitigate this conflict by: (1) fully and fairly disclosing the material facts concerning the above arrangements to our clients, including in this Brochure; and (2) offering FTCS solutions to clients on a strictly nondiscretionary and fully disclosed basis, and not as part of any discretionary investment services. Additionally, we note that clients who use FTCS's services will receive product-specific disclosure from the Network Institutions and other unaffiliated third-party intermediaries that provide services to our clients.

We have an additional conflict of interest when we recommend FTCS to provide credit solutions to our clients because our interest in continuing to receive investment advisory fees from client accounts gives us a financial incentive to recommend that clients borrow money rather than liquidating some or all of the assets we manage.

### Credit Solutions from FTCS

For FTCS credit solutions, the interest rate of the loan is ultimately determined by the lender, although in some circumstances FTCS may have the ability to influence the lender to lower the interest rate of the loan. As noted above, FTCS's earned revenue is indirectly paid by you through an increased interest rate charged by the lender. The final rate may be higher or lower than the prevailing market rate. We can offer no assurances that the rates offered to you by the lender are the lowest possible rates available in the marketplace.

Clients retain the right to pledge assets in accounts generally, subject to any restrictions imposed by clients' custodians. While the FTCS program facilitates secured loans through Network Institutions, clients are free instead to work directly with institutions outside the FTCS program. Because of the limited number of participating Network Institutions, clients may be limited in their ability to obtain as favorable loan terms as if the client were to work directly with other banks to negotiate loan terms or obtain other financial arrangements.

Clients should also understand that pledging assets in an account to secure a loan involves additional risk and restrictions. A Network Institution has the authority to liquidate all or part of the pledged securities at any time, without prior notice to clients and without their consent, to maintain required collateral levels. The Network Institution also has the right to call client loans and require repayment within a short period of time; if the client cannot repay the loan within the specified time period, the Network Institution will have the right to force the sale of pledged assets to repay those loans. Selling assets to maintain collateral levels or calling loans may result in asset sales and realized losses in a declining market, leading to the permanent loss of capital. These sales also may have adverse tax consequences. Interest payments and any other loan-related fees are borne by clients and are in addition to the advisory fees that clients pay us for managing assets, including assets that are pledged as collateral. The returns on pledged assets may be less than the account fees and interest paid by the account. Clients should consider carefully and skeptically any recommendation to pursue a more aggressive investment strategy in order to support the cost of borrowing, particularly the risks and costs of any such strategy. More generally, before borrowing funds, a client should carefully review the loan agreement, loan application, and other forms and determine that the loan is consistent with the client's long-term financial goals and presents risks consistent with the client's financial circumstances and risk tolerance.

### Cash Management Solutions from FTCS

For FTCS cash management solutions, as stated above, certain third-party intermediaries provide administrative and settlement services in connection with the program. Those intermediaries each charge a fixed basis point fee on total deposits in the program. Before any interest is paid into client accounts, the Network Institutions and certain unaffiliated third-party service providers take their fees out, and the net interest is then credited to clients' accounts. The fees debited by the Network

Institutions include FTCS's earned revenue. Engaging FTCS, the Network Institutions, and these other intermediaries to provide cash management solutions does not alter the manner in which we treat cash for billing purposes.

Clients should understand that in rare circumstances, depending on interest rates and other economic and market factors, the yields on cash management solutions could be lower than the aggregate fees and expenses charged by the Network Institutions, the intermediaries referenced above, and us. Consequently, in these rare circumstances, a client could experience a negative overall investment return with respect to those cash investments. Nonetheless, it might still be reasonable for a client to participate in the FTCS cash management program if the client prefers to hold cash at the Network Institutions rather than at other financial institutions (e.g., to take advantage of FDIC insurance).

d) **Advisor Agreements**

Pursuant to preexisting agreements with Focus and HC, one of the firm's Advisors is permitted to solicit a limited number of HC clients for participation in investments outside of the HC Platform. This Advisor may also have an interest (i.e. receive compensation) in these investments. This agreement represents a potential conflict of interest as the Advisor may stand to benefit personally from investments recommended to this select group of clients.

HC attempts to mitigate any such conflict by providing full transparency of the conflict to the clients involved, including how the specific Advisor may stand to benefit from these investments. Participating clients are also provided written disclosures of these conflicts at the time they make their initial investment. Disclosures are recertified by participating clients on any changes in the Advisor's compensation structure with regard to these investments. Participation (both by Advisors and clients) in these types of investments is also narrowly limited in scope. No other Advisors are permitted to solicit clients for investments outside of the HC platform under any circumstances. Other HC clients may not be solicited for these investments; only those who were specifically named in the original agreements may be approached about any such investment opportunities. HC does not believe that this conflict has widespread applicability as the vast majority of HC clients are not eligible for participation in the investments that give rise to this potential conflict.

e) **Insurance Services**

In the past, some HC Advisors offered some of their clients various insurance services in addition to advisory services. This service is no longer offered by any HC Advisors, but when it was, compensation for insurance transaction was separate from the compensation HC received for its advisory services. This compensation was disclosed to the client before the transaction was completed and did not affect the cost of the insurance to the client. Some Advisors may still receive compensation for previously executed insurance transactions.

f) **Non-Profit Board Affiliations**

Several HC staff members hold seats on the board of non-profit organizations, some of which are affiliated with the investment management industry. Mark Delfino serves on the board of the Old Globe Theatre and serves as Vice Chair of its Investment Committee and as a member its Executive Committee. Steve Taddie serves on the board of Focus on European Art, Phoenix and the State of Arizona State Finance Advisory Committee. Janet Acheatel serves as Chairman of the Board of the Jewish Community Foundation of San Diego and the Jewish Federation of San Diego. Robert Lopez serves on the UCLA Alumni Board. Vanessa Wieliczko serves on the board of CFA Society San Diego.

## **11. Code of Ethics**

HC has adopted a written Code of Ethics which incorporates an insider trading policy. The Code of Ethics requires that HC Supervised Persons must:

- Put the interest of the clients first
- Conduct all personal Securities Transactions in compliance with the Code
- Keep information confidential
- Comply with federal securities laws
- Seek advice when in doubt about the propriety of any action or situation
- Report any violations of the Code promptly to the CCO

Partners, employees and Advisors of HC ("Supervised Persons") may buy and sell securities and other investment products in their personal accounts that may also be recommended to HC's clients. Supervised Persons may undertake personal investment activities in direct opposition to recommendations made to clients if deemed appropriate and suitable for them. Pre-clearance procedures for employee trading are designed to ensure fair and equitable trading practices in client portfolios. Specific employee trading policies and procedures are outlined in the Code. All Supervised Persons must also provide the CCO with a list of personal security holdings annually, and a list of all personal security transactions no less frequently than quarterly.

It is HC's policy that the Firm will not affect any principal or agency cross securities transactions for client accounts. HC will also not cross trades between client accounts except in very limited circumstances. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client. A principal transaction may also be deemed to have occurred if a security is crossed between an affiliated private fund and another client account. An agency cross transaction is defined as a transaction where a person acts as an investment adviser in relation to

a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the advisory client and for another person on the other side of the transaction.

The Code of Ethics specifically addresses HC's general policy relating to insider trading: no supervised person may trade, either personally or on behalf of others (such as in the case of investment funds and private accounts managed by HC), while in the possession of material, nonpublic information, nor may any personnel of HC communicate material, nonpublic information to others in violation of the law. Adherence to this policy is ensured through the monitoring of employee trading, restricting employee access to non-public information and employee training on insider trading and how to handle and report non-public information. HC will provide a copy of the Code of Ethics to any client or prospective client upon written request to HC's Chief Compliance Officer, Heather England, at HC's San Diego home office address.

## 12. Brokerage Practices

As HC does not maintain custody of your assets (for details about custody, refer to Item 15 of this Brochure), your assets must be maintained in an account at a "qualified custodian," generally a broker-dealer or bank. Individual clients are required to transfer the assets they wish to place under management at HC to Charles Schwab & Co., Inc. (Schwab), a registered broker-dealer, member SIPC, as their qualified custodian. Fiduciary Services clients are required to transfer the assets they wish to place under management at HC to Schwab or Fidelity Investments (Fidelity), also a registered broker-dealer and member SIPC, as their qualified custodian. HC is independently owned and operated and is not affiliated with either Schwab or Fidelity. The qualified custodian will hold your assets in a brokerage account and buy and sell securities only when you or HC instruct them to. While HC requires that the assets it manages be custodied at either Schwab or Fidelity, depending on the type of services we provide to you, you will decide whether to do so and will open your account with the custodian by entering into an account agreement directly with them. HC does not open accounts for you but may assist you in doing so. If you are an individual client and do not wish to place your assets with Schwab, or a Fiduciary Services client and do not wish to place your assets with Schwab or Fidelity, HC is unable to manage your account, except in the very limited circumstances defined in this Brochure. Even though your account is maintained at Schwab or Fidelity, HC may still use other brokers to execute trades for your account as described below.

HC retains discretionary authority over several accounts held at Millennium Trust Company and Merrill Lynch. These are legacy relationships, and as such, these custodians are not available for new client assets.

a) **How HC Selects Custodians**

HC seeks to employ a custodian that will hold your assets and execute transactions on terms that are, overall, most advantageous when compared with other available providers and their services. HC considers a wide range of factors, including:

- Combination of transaction execution services and asset custody services (generally without a separate fee for custody)
- Capability to execute, clear, and settle trades (buy and sell securities for your account)
- Capability to facilitate transfers and payments to and from accounts (wire transfers, check requests, bill payment, etc.)
- Breadth of available investment products (stocks, bonds, mutual funds, exchange-traded funds [ETFs], etc.)
- Quality of services and client service team support
- Competitiveness of the price of those services (commission rates, margin interest rates, other fees, etc.) and willingness to negotiate the prices
- Reputation, financial strength, security and stability
- Prior service to HC and its clients

b) **Your Brokerage & Custody Costs**

The qualified custodians HC recommends generally do not charge you separately for custody services on most accounts but are compensated by charging you commissions or other fees on trades that they execute or that settle into your accounts held there. Certain trades (for example, many mutual funds and ETFs) may not incur custodial commissions or transaction fees. Qualified custodians may also be compensated by earning interest on the uninvested cash in your account.

For some accounts held at Charles Schwab, you may be charged an asset-based fee related to specific types of assets you may hold. The commission rates and asset-based fees applicable to HC client accounts held at Schwab were negotiated based on the commitment of HC clients collectively maintain a certain level of assets in accounts there. This commitment benefits you because the overall commission rates and asset-based fees you pay are lower than they would be otherwise. In addition to these costs, Schwab charges a flat dollar amount as a "prime broker" or "trade away" fee for each trade that HC has executed by a different broker-dealer but where the securities bought or the funds from the securities sold are deposited in a Schwab account. These fees are in addition to the commissions or other compensation you pay the executing broker-dealer. Because of this, in order to minimize your trading costs, HC typically requests that Schwab execute all the trades in your accounts held there.

HC regularly reviews Charles Schwab and Fidelity as chosen custodians to ensure this selection is consistent with HC's fiduciary duty. These custodial platforms are essential to HC's service arrangements and capabilities, and HC may not accept clients who direct the use of other brokers.

HC has evaluated both Schwab and Fidelity and believes that they will provide HC clients with a blend of execution services, commission costs and professionalism that will assist HC in obtaining best execution for transactions. On at least an annual basis, HC performs a review of our designated custodians against other peer firms to confirm that clients are receiving best execution. HC has also established a direct relationship with American Funds to act as custodian for client 529 Plan accounts. When the custodian receives sufficient assets and the client and HC have agreed upon the investment strategy, HC will begin management of the client's account and begin initiating transactions as appropriate. HC may also establish direct relationships with others from time to time as it sees fit.

#### Over the Counter (OTC) Securities Transactions

OTC transactions are generally affected on an agency basis, which involve the services of two separate broker-dealers: (1) a "dealer" or "principal" acting as market-maker; and (2) the executing broker-dealer that acts in an agency capacity for the client's account. Dealers executing principal transactions typically include a mark-up/down, which is included in the offer or bid price of the securities purchased or sold. In addition to the dealer mark-up/down, the client will also incur the transaction fee imposed by the executing broker-dealer. HC does not receive any portion of the dealer mark-up/down or the executing broker-dealers transaction fee.

#### Prime Brokerage

When beneficial to the client, individual fixed income transactions may be affected through broker-dealers other than the account custodian. In this case, the client may incur both the fee (commission, mark-up/mark-down) charged by the executing broker-dealer and a separate trade-away and/or prime broker fee charged by the account custodian.

#### c) **Directed Brokerage for Employer-Sponsored Self-Directed Retirement Plans**

HC allows directed brokerage in the limited circumstance when it serves as investment advisor for certain employer-sponsored self-directed retirement plans. In such circumstances, the Plan Sponsor may select a custodian and/or broker-dealer other than Charles Schwab or Fidelity. Directed Brokerage is not offered to individual or Fiduciary Services clients in any circumstances.

#### d) **Trade Errors**

While we take reasonable steps to avoid errors in our trading process, occasionally errors do occur. We seek to identify and correct trade errors as quickly as possible and make whole any client who has experienced a trade error caused by HC. HC's policy is meant to ensure that clients are placed in the position intended absent any error. A "Trade Error" is generally a mistake made in a client account that contravenes the applicable standard of care or is inconsistent with the client's investment objectives, strategies, guidelines, instructions, and restrictions ("investment objectives").

When HoyleCohen is responsible for a Trade Error, HoyleCohen, rather than the client, bears the costs and risks of erroneous trades. When a Trade Error is discovered by a trader or other relevant person, the error is documented, and HoyleCohen transfers the erroneous position to the custodian's "error account" when possible, at the price paid or received by the client, and seeks to unwind the position as quickly as is practicable. The Trade Error policy of the custodian generally will dictate the Trade Error correction mechanics. HoyleCohen bears the economic risk of losses in positions. Clients who invest in strategies managed by a sub-adviser are requested to review the disclosure document of that sub-adviser for complete information on the brokerage practices of that firm.

## 13. Review of Accounts

### a) **Reviews**

Transactional client account detail is examined regularly by Operations and/or Advisory Team members in order to identify inconsistencies and to review the accuracy of securities trades, income distributions, cash balances, deposits or withdrawals. In addition, an electronic download from the client's custodian and software-based accounting system is used to reconcile accounts. Operations staff do not make investment decisions or recommendations to clients. In the course of the daily review, if any of these personnel identify one of the above changes to an account, he or she will consult with an Advisor on a course of action.

Advisors review client accounts as frequently as needed. Accounts for clients are rebalanced as necessary to bring the asset allocation back in line with recommended asset allocations and/or the client's investment objectives or policy statement. Advisors communicate with clients regularly and when client circumstances change to ensure client accounts are being managed consistent with client objectives.

The HC IC is responsible for reviewing, monitoring and recommending changes to investments on the HC investment platform. The HC IC may also recommend target allocations and/or specific strategies for certain objectives. The HC IC Advisory Board also meets regularly to discuss and to make decisions based on the IC's recommendations. Each Advisor assesses the HC IC's recommendations for applicability to each client situation. Global asset allocation, potential tax ramifications of investment changes and client-specific variables are considered prior to implementation.

### b) **Reports**

In addition to the statements and confirmations of transactions that investment management clients receive from their account custodian, HC prepares and sends each client a report on a



quarterly basis that provides the market value of assets under management, HC advisory fees, and investment performance which includes year-to-date performance and asset allocation. HC's standard process includes at least annual meetings between clients and their Advisors either in person, on the phone or via a virtual meeting depending on client circumstances and preferences. Unless specified otherwise, planning and other issues that are part of HC's ongoing advisory services are typically addressed as part of this review process. Clients with specific Investment Policy Statements will typically review these statements with their Advisors annually. HC also provides each client an annual Privacy Notice.

c) **Review of Participant-Directed Retirement Accounts**

HC regularly reviews investments offered to plan participants by a plan sponsor and communicates menu adjustments to the plan sponsor as needed. Detailed reviews of individual investments and menu selections are offered at least annually. All such reviews are conducted by a member of the firm's Investment Committee.

## **14. Client Referrals & Other Compensation**

a) **Client Referrals**

HC engages independent solicitors to provide client referrals. If a client is referred to the firm by a solicitor, this practice is disclosed to the client in writing by the solicitor and HC pays the solicitor out of its own funds—specifically, the firm generally pays the solicitor a portion of the advisory fees earned for managing the assets of the client that was referred. The use of solicitors is strictly regulated under applicable federal and state law. It is HC's policy to fully comply with the requirements of Rule 206(4)-3, under the Investment Advisers Act of 1940, as amended, and similar state rules, as applicable.

HC may receive client referrals from Zoe Financial, Inc. through its participation in the Zoe Advisor Network (ZAN). Zoe Financial, Inc. is independent of, and unaffiliated with, HC and there is no employee relationship between them. Zoe Financial established the Zoe Advisor Network as a means of referring individuals and other clients seeking fiduciary personal investment management services or financial planning services to independent investment advisors. Zoe Financial does not supervise HC and has no responsibility for the firm's management of client portfolios or HC's other advice or services. HC pays Zoe Financial an ongoing fee for each successful client referral. This fee is usually a percentage of the advisory fee that the client pays to the Advisor ("Solicitation Fee"). HC will not charge clients referred through the Zoe Advisor Network any fees or costs in excess of its standard fee schedule offered to HC's other clients. For information regarding additional or other fees paid directly or indirectly to Zoe Financial Inc., please refer to the Zoe Financial Disclosure and Acknowledgement Form.

## b) Other Valuable Services

As disclosed under Item 12 above, HC recommends Schwab to clients for custody and brokerage services. HC also participates in Schwab Advisor Services.™ This platform is Schwab's business arm that serves independent investment advisory firms like HC. They provide HC and its clients with access to their institutional brokerage services (trading, custody, reporting and related services), many of which are not typically available to Schwab retail customers. Schwab also makes available various support services. Some of those services help HC manage or administer clients accounts, while others help HC manage and grow its business. Schwab's support services are generally available on an unsolicited basis (HC does not have to request them) and at no charge to HC. The following is a more detailed description of Schwab's support services:

### Services that benefit clients

Schwab's institutional brokerage services include access to a broad range of investment products, execution of securities transactions and custody of client assets. The investment products available through Schwab include some to which HC might not otherwise have access or that would require a significantly higher minimum initial investment by its clients. Schwab's services described in this paragraph generally benefit you and your account.

### Services that may not directly benefit clients

Schwab also makes available to HC other products and services that benefit the firm but may not directly benefit clients or their accounts. These products and services assist HC in managing and administering client accounts. This includes investment research, both Schwab's own and that of third parties. HC may use this research to service all or a substantial number of client accounts. In addition to investment research, Schwab also makes available software and other technology that:

- Provide access to client account data (such as duplicate trade confirmations and account statements)
- Facilitate trade execution and allocate aggregated trade orders for multiple client accounts
- Provide pricing and other market data
- Facilitate payment of HC fees from client accounts
- Assist with back-office functions, recordkeeping, and client reporting

### Services that generally benefit only HC

Schwab also offers other services intended to help HC manage and further develop its business enterprise. These services include:

- Educational conferences and events
- Consulting on technology, compliance, legal, and business needs
- Publications and conferences on practice management and business succession
- Access to employee benefits providers, human capital consultants, and insurance providers

- Marketing consulting and support

Schwab may provide some of these services itself. In other cases, it may arrange for third-party vendors to provide the services to HC. Schwab may also discount or waive its fees for some of these services or pay all or a part of a third party's fees. Schwab may also provide HC with other benefits, such as occasional business entertainment of HC personnel.

HC has an agreement with Charles Schwab under which HC may receive "benefit dollars" towards technology, research marketing and compliance related expenses in exchange for maintaining a certain amount of client assets custodied at Schwab. This technology and support is not provided in connection with securities transactions of clients (i.e., is not "soft dollars"), but is based on the total volume of assets custodied at Schwab by HC clients. These offerings may benefit HC, but not its clients directly.

c) **Our interest in Schwab's services**

The availability of these services from Schwab benefits HC because it does not have to produce or purchase them. This creates an incentive to recommend that you maintain your account with Schwab, based on HC's interest in receiving Schwab's services that benefit its business rather than based on your interest in receiving the best value in custody services and the most favorable execution of your transactions. This is a conflict of interest. HC believes, however, that its selection of Schwab as custodian and broker is in the best interests of its clients. The selection is primarily supported by the scope, quality, and price of Schwab's services and not Schwab's services that benefit only HC.

In fulfilling its duties to its clients, HC endeavors at all times to put the interests of its clients first. Clients should be aware, however, that HC's receipt of economic benefits from a broker-dealer creates a conflict of interest, as these benefits could theoretically influence the Firm's choice of one broker-dealer over another that does not furnish similar services.

d) **Other Disclosures**

As noted above, HC's parent company is Focus Financial Partners, LLC. From time to time, Focus Financial Partners, LLC holds partnership meetings and conferences, which typically include HC, other Focus firms, and external attendees. Those meetings are intended to provide training or education to personnel of Focus firms, including HC. However, the meetings may provide sponsorship opportunities for asset managers, asset custodians, vendors and other third-party service providers. Sponsorship fees allow these companies to advertise their products and services to Focus firms, including HC. Although the participation of Focus firm personnel in these meetings is not preconditioned on the achievement of a sales target for any conference sponsor, this practice could nonetheless be deemed a conflict as the marketing and education activities conducted, and the access granted, at such meetings and conferences could cause HC to focus on those conference

sponsors in the course of its duties. Focus attempts to mitigate any such conflict by allocating the sponsorship fees only to defraying the cost of the meeting or future meetings and not serve as revenue for itself or any affiliate, including HC. Conference sponsorship fees are not dependent on assets placed with any specific provider or revenue generated by such asset placement. The following entities have provided conference sponsorship to Focus from January 1, 2021 to March 1, 2022: Charles Schwab & Co., Inc.

## **15. Custody**

HC does not take possession of client money or securities. However, because HC generally has the authority to deduct its advisory fees directly from client accounts as agreed in client contracts, it is deemed to have custody of client assets per SEC rules and regulations. Charles Schwab and Fidelity serves as custodian for client accounts and maintain actual custody of client assets.

Clients receive statements from the qualified custodian that holds and maintains a client's investment assets. HC urges clients to carefully review such statements and compare such official custodial records to the account statements that HC may provide. HC's statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies or timing for certain securities.

HC is deemed to have custody of certain client assets by virtue of PIN and password access Advisors have to assets of their clients held outside HC at the request of those clients. HC has engaged an independent public accountant to conduct an annual surprise exam of relevant investor funds and securities to comply with Rule 206(4)-2 under the Investment Advisers Act of 1940. HC is also deemed to have custody of certain client accounts for which it maintains Standards Letters of Authorization (SLOAs). HC follows the seven (7) criteria enumerated in the SEC's February 1, 2017 no-action letter and as such does not engage an independent public accountant to conduct an annual surprise audit of these accounts.

## **16. Investment Discretion**

HC determines which securities to purchase and in what amount in discretionary accounts under its direct management. External investment managers determine which securities to purchase and in what amount in client accounts that they manage. Any restrictions or limitations to HC's discretionary authority are established on a client-by-client basis.

a) **Individual Security Trade Aggregation**

Procedures have been developed for individual securities with the intention of providing reasonable assurance that a clear and consistent methodology is applied to the aggregation and allocation of investment opportunities and transactions. Once it is determined that a given security should be purchased or sold for particular accounts, the number of shares to be traded for each account is determined. In determining the size of a client's order, consideration is given to factors including the size of the account, any legal or client-imposed investment restrictions, the cash position of the account and the role of the investment in the client's asset allocation strategy.

If HC decides to place a block trade of 10,000 shares or greater of a particular security in client accounts, trading personnel will inform staff the day before the trade is placed to offer employee participation in the trade. If HC personnel decide to purchase or sell the same security, they must place their trades through HC. Orders for HC personnel are aggregated with those for clients, but client orders are filled first.

If an aggregated order is filled in its entirety, it will be allocated among clients and HC personnel in accordance with the allocation statement; in the unusual circumstance where an order is partially filled, it will be allocated based on a rotational methodology using client names. HC personnel do not participate in such orders unless and until all client needs are satisfied.

b) **Queue Process for Private Funds or External Investment Managers**

From time to time, the aggregate volume of client interest in a given private investment managed by an external manager may exceed the amount that manager is able to accept and invest, making it necessary to develop a queue to track the order in which client accounts will be funded in the investment over time. In order to establish a fair and equitable process for determining priority in the investment queue, HC employs a series of internal policies and procedures which outline how client priority in these queues is determined.

## **17. Voting Client Securities**

HC's proxy policy is client specific. Unless HC has explicitly agreed to vote proxy on a client's behalf, it is each client's responsibility to vote proxies and participate in corporate actions of the securities they hold, if they so choose. Clients will receive applicable proxies directly from the issuer of securities held in clients' investment portfolios. HC may vote proxy on behalf of clients who request it. In order to efficiently manage proxy voting for its clients, HC may employ a third-party service to manage the proxy voting process. In these instances, the third-party vendor will retain all copies of proxy materials which will be made available to clients upon request. In all other instances, HC will receive the proxy materials

from Charles Schwab and other brokerage firms for securities held in client accounts on behalf of those clients. Clients may request to receive duplicate informational copies of proxy materials or not. Proxy voting ballots represent each security in aggregate.

The HC Individual Security Investment Sub-Committee has a process for reviewing proxy materials and deciding how to vote on each issue or initiative. Any IC member who has a direct or indirect interest in the issue presented for voting must recuse himself or herself from voting on that particular issue. HC keeps records of which securities were voted, how many shares of each security were voted, and how each share was voted, for all proxy clients. Clients who wish to vote their proxies in a specific way may do so by changing the voting authorization so that his or her shares are no longer included in the aggregated vote.

If HC has not been granted the authority to vote client securities, clients will receive their proxies or other solicitations directly from their custodians or transfer agents. A full copy of HC's Proxy Voting Policy and voting record is available upon request. Clients should contact HC's CCO, Heather England, with questions about a particular solicitation, or how HC voted their securities.

## **18. Financial Information**

Advisors are required in this Item to provide you with certain financial information or disclosures about HC's financial condition. HC has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients and has not been the subject of a bankruptcy proceeding.