# HighPoint Advisor Group

## Advisory Account Guidelines & Review Procedures

Investment advisors are fiduciaries that owe a duty of undivided loyalty to their advisory clients. The fiduciary duty imposed upon investment advisors requires that they act solely in the best interests of their clients and that they make full and fair disclosure of all material facts relating to the handling of client affairs. This document will provide guidance on managing Advisory portfolios and how to document that your ongoing fiduciary obligations are being met as an Investment Advisor Representative (IAR) of HighPoint Advisor Group (HPAG or Firm). This is not only required from a regulatory and compliance perspective; it is a best practice and overall good business approach.

## A. Systems

1. HPAG uses various systems to monitor and supervise Advisory accounts.

   LPL's connection to Proactive Surveillance provides HighPoint with alerts based on the rules listed below. Morningstar provides data for calculating asset allocation values.

## B. Guidelines and Supervision

1. Advisory agreements are executed at the account level, and Advisory fees are based on the specific management of the Advisory account only. Therefore, each guideline will be assessed on an account-by-account basis, without regard to the overall household management for the Client. The IAR must demonstrate account management on each individual Advisory account for which a separate fee is being earned.

   Advisory accounts are subject to the guidelines outlined below.

   a. **Asset Allocation** - An Advisory account's allocation should correspond to the target allocation ranges listed for each investment objective.
   b. **Trade Inactivity** – At least 5% of the account must be traded/rebalanced no less than every 24 months.
   c. **High Cash Balance** – An account can hold no more than 35% of the account balance in cash or cash equivalents for more than 6 months.
   d. **Security Concentrations -** Holdings in an Advisory account cannot exceed the concentration limits stated in the table below.
   e. **Low Priced Securities** – Advisors are not permitted to recommend low priced securities.
   **f.** **New Account Documentation -** An IAR is responsible for ensuring relevant Client information is collected at the inception of the Advisory account and prior to making recommendations for the Client.

2. **Asset Allocation:**
   An Advisory account's allocation should correspond to the target allocation ranges listed for each investment objective. The allocation should match the Investment Objective for the specific account and not an overall objective for the Client's household.

   When reviewed by HighPoint, allocation values are calculated using data from Morningstar. This data includes underlying holding information for mutual funds and certain variable annuity sub-accounts. Accounts are sampled for review and a risk score is obtained from Morningstar. The risk score is based on underlying metrics and flags for the positions in the account. Further detail regarding the algorithm used to calculate the risk score can be obtained upon request.

   If an Advisory account is outside the target allocation range, HighPoint will receive an alert. The Advisor can resolve this alert by rebalancing the account to bring the holdings within the target range, provide a reasonable explanation for the exception, or if appropriate, update the investment objective. Any change to an investment objective must be discussed with the Client and is strongly recommended to be documented on a risk assessment. The IAR should resolve the alert or provide an explanation of the exception to Compliance within 30 days.

An Advisory account that is invested outside the stated objective for more than 60 days is subject to termination of the Advisory agreement. Reasonable short-term exceptions will be considered.

Note: The scores listed below are targets determined by Morningstar. Advisors can use other risk monitoring services to determine portfolio suitability, but scores must generally align with the scores in the table.

| | Income w/ Capital Preservation | Income w/ Moderate Growth | Growth w/ Income | Growth | Aggressive Growth |
|---|---|---|---|---|---|
| Target Risk Score | 23 | 40 | 60 | 78 | 92 |

3. **Trade Inactivity:**
This alert is designed to evidence appropriate ongoing management of Advisory accounts. The purpose of an Advisory portfolio is active, ongoing management. It is generally not appropriate for an Advisor to collect Advisory fees on an inactive account.

Each IAR is responsible for documentation and evidence of active management for each Advisory account for which he/she is named as the IAR.

<u>At least 5% of the account must be traded/rebalanced no less than every 24 months.</u> This guideline represents a minimum of trade activity. If an Advisory account is inactive for more than 12 months, the Advisor may be alerted to the account's inactive status. Consistent with the Advisor's fiduciary duty, any account that has been inactive for 12 months should be reviewed for the appropriateness of the account type. Advisory fees should be reviewed relative to the potential cost of brokerage commissions. Account holdings should be analyzed using an automated tool to determine whether it is appropriate to rebalance. If the IAR determines it is in the Client's best interest to transfer the account to a brokerage account, he/she should notify Compliance.

Any Advisory account with no trade activity for 24 months or with less than 5% turnover within 24 months will be subject to immediate termination of the Advisory agreement.

4. **High Cash Balance:**
This alert is designed to identify Advisory accounts with a disproportionately high cash balance.

<u>An Advisory account can hold no more than 35% of the account balance in cash or cash equivalents for longer than 6 months.</u> To align an account with the policy, an Advisor may reduce the cash balance by investing the available cash, transferring the cash out of the Advisory account, or closing the account. If an Advisory account holds a cash balance of 35% or more for more than 3 months, the Advisor may be alerted to the account's high cash balance.

Any Advisory account that holds an average of 35% or more of the account balance in cash for 6 months will be subject to termination of the Advisory agreement.

5. **Security Concentration:**
<u>Holdings in an Advisory account cannot exceed the concentration limits stated in the table below</u>. Holding a concentrated position in any product poses additional risk to a Client's account. Our Advisory platform is designed for long-term asset allocation, and each account should be properly diversified consistently with the Client's investment objective for the account. The IAR is responsible for providing ongoing investment advice/management with respect to all assets within the account. It is generally not appropriate to hold a concentrated position within an Advisory account long-term.

Under certain conditions, an IAR may be permitted to hold a concentrated position and reduce the position over time to minimize the tax impact to the Client. If the Client is willing to accept the higher risk associated with holding a concentrated position for a period not to exceed one year, the Client may sign an Acknowledgment of Concentrated Security (A40) form. If the concentrated security is not reduced below the stated threshold within a 12-month period, the Advisory agreement is subject to termination.

It is important to remember that all positions within an account are subject to ongoing review and oversight by the IAR. It would not be appropriate to hold a concentrated position within an account and earn an Advisory fee if the client intends to hold the position indefinitely, with no intention of liquidating any portion of the position or diversifying the account. If there is no intention to make changes or rebalance the holdings over time, then it would not be appropriate for the IAR to receive an advisory fee on the position and it should be moved to a brokerage account.

| Security Type | Maximum Concentration |
|---|---|
| Individual Equity/Preferred Stock | 35% |
| Individual ETF | 75% |
| Individual Mutual Fund | 75% |
| Individual Fixed Income Bond | 35% |
| Individual Commodity Linked ETF or ETN | 35% |
| Individual Alternative Investment | 35% |
| Aggregate Alternative Investment | 50% |
| Individual Interval Fund | 35% |
| Individual Structured Product | 35% |
| Individual UIT | 50% |
| Individual Offshore Mutual Fund | 50% |
| Aggregate Low Priced Securities | |
| - Income w/Capital Preservation | 5% |
| - Income w/Moderate Growth | 10% |
| - Growth w/Income | 15% |
| - Growth | 20% |
| - Aggressive Growth | 20% |
| Aggregate High Yield Bonds | |
| - Income w/Capital Preservation | 15% |
| - Income w/Moderate Growth | 20% |
| - Growth w/Income | 25% |
| - Growth | 35% |
| - Aggressive Growth | 35% |
| Cash or Equivalents | 35% |

6. **Low Priced Securities:**
The advisor is not permitted to recommend the purchase of a security priced under $2 per share or to purchase a low-priced security on a discretionary basis. Any holding that is purchased above $5/share and then falls below that price due to market movement may continue to be held in the client account.

If the client wishes to purchase a low-priced security, they should do so in a brokerage account.

7. **New Accounts:**
<u>An IAR is responsible for ensuring relevant Client information is collected at the inception of the Advisory account and prior to making recommendations for the Client.</u> That information includes, but is not limited to, Client identification and account registration, risk tolerance, investment objective, fees, investment experience, income and source of funds, net worth, tax information, time horizon, Custodial information, trusted contact (at

Client discretion), and beneficiary designations (for qualified accounts). Information must be complete and accurate at the time of the account opening.

The documentation is reviewed within the Custodian's platform. If concerns are identified during the review, the IAR will be contacted. An IAR does not have discretion on a new account until a Discretionary Asset Management Agreement (DAMA) has been executed with the Client. If the DAMA is not signed within 30 days of the account opening, the Advisory account is subject to termination.

## C. Documentation:

1. Advisors receive notifications from HighPoint via email. Resolution of each alert must be documented via email to Compliance.

   The resolution of each alert is documented by Compliance.