

# Disclosure Brochure

September 12, 2011

## **Prosper Advisors LLC**

*a Registered Investment Adviser*

20 Bedford Road  
Armonk, New York 10504

(914) 730-3500

[www.ProsperAdv.com](http://www.ProsperAdv.com)

This brochure provides information about the qualifications and business practices of Prosper Advisors LLC (hereinafter "Prosper Advisors" or the "firm"). If you have any questions about the contents of this brochure, please contact Prosper Advisors' Chief Compliance Officer at (914) 730-3500. 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. Additional information about Prosper Advisors LLC is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Prosper Advisors LLC is an SEC registered investment adviser. Registration does not imply any level of skill or training.

## **Item 2. Material Changes**

This Item discusses only the material changes that have occurred since Prosper Advisors' last annual update dated March 25, 2010. The firm has no material changes to report in response to this Item.

## Item 3. Table of Contents

### Firm Disclosure Brochure

Item 1.	Cover Page .....	i
Item 2.	Material Changes .....	ii
Item 3.	Table of Contents .....	iii
Item 4.	Advisory Business .....	4
Item 5.	Fees and Compensation .....	7
Item 6.	Performance-Based Fees and Side-by-Side Management .....	11
Item 7.	Types of Clients.....	12
Item 8.	Methods of Analysis, Investment Strategies and Risk of Loss .....	13
Item 9.	Disciplinary Information .....	16
Item 10.	Other Financial Industry Activities and Affiliations .....	17
Item 11.	Code of Ethics .....	18
Item 12.	Brokerage Practices .....	19
Item 13.	Review of Accounts.....	22
Item 14.	Client Referrals and Other Compensation .....	23
Item 15.	Custody .....	24
Item 16.	Investment Discretion.....	25
Item 17.	Voting Client Securities .....	26
Item 18.	Financial Information .....	27

### Supervised Person Brochure Supplement(s)

## Item 4. Advisory Business

Prosper Advisors has been in business as an independent, fee-only investment adviser since May 2002. The firm offers clients a variety of tax conscious wealth management solutions, which include financial planning and consulting, corporate executive services and investment portfolio management. Nadine Lee serves as the President and Principal Owner of Prosper Advisors. As of June 30, 2011, the firm had \$339,835,885 in assets under management, of which \$249,051,440 was managed on a discretionary basis and \$90,784,445 was managed on a non-discretionary basis.

Prior to engaging Prosper Advisors to provide any of the foregoing investment advisory services, the client is required to enter into one or more written agreements with Prosper Advisors setting forth the terms and conditions under which Prosper Advisors renders its services (collectively the “*Agreement*”).

This Disclosure Brochure describes the business of Prosper Advisors. Certain sections will also describe the activities of *Supervised Persons*. *Supervised Persons* are any of Prosper Advisors’ officers, partners, directors (or other persons occupying a similar status or performing similar functions), or employees, or any other person who provides investment advice on Prosper Advisors’ behalf and is subject to Prosper Advisors’ supervision or control.

### Financial Planning and Consulting Services

---

Prosper Advisors offers clients a range of financial planning and consulting services addressing a variety of matters, which include the following, without limitation:

- Family Office Functions
- Estate Planning
- Succession Planning
- Risk Management
- Insurance Needs
- Tax Planning
- Lifestyle Analysis
- Financial Independence Planning
- Philanthropic Planning
- Educational Funding
- Wealth Transfer
- Distribution Planning
- Diversification Strategies
- Trust Administration

While Prosper Advisors generally provides these services to clients as part of an ongoing engagement, the firm also offers them as a standalone service. Prosper Advisors generally tailors these services to accommodate the specific needs, objectives and circumstances of each individual client.

In performing the aforementioned services, Prosper Advisors is not required to verify any information received from the client or from the client’s other professionals (e.g., attorney, accountant, etc.) and is expressly authorized to rely on such information. Prosper Advisors may recommend the services of itself and/or other professionals to implement its recommendations. Clients are advised that a conflict of interest exists if Prosper Advisors recommends its own services. The client is under no obligation to act

upon any of the recommendations made by Prosper Advisors under a financial planning or consulting engagement or to engage the services of any such recommended professional, including Prosper Advisors itself. The client retains absolute discretion over all such implementation decisions and is free to accept or reject any of Prosper Advisors' recommendations. Clients are advised that it remains their responsibility to promptly notify Prosper Advisors if there is ever any change in their financial situation or investment objectives for the purpose of reviewing, evaluating, or revising Prosper Advisors' previous recommendations and/or services.

### **Investment Management Services**

---

Prosper Advisors manages its clients' investment portfolios on a discretionary and/or non-discretionary basis.

Prosper Advisors primarily allocates clients' investment management assets among various *Independent Managers* (as defined on Page 6), mutual funds, exchange-traded funds ("ETFs"), individual debt and equity securities and/or options. In addition, Prosper Advisors may recommend that clients who are "accredited investors" as defined under Rule 501 of the Securities Act of 1933, as amended, invest in private placement securities, which may include debt, equity, and/or pooled investment vehicles when consistent with the clients' investment objectives. Prosper Advisors also provides advice about any type of investment held in clients' portfolios.

Prosper Advisors also may render investment management services to clients relative to assets held outside of the client's primary custodian, such as employer-sponsored retirement plans and 529 plans. In doing so, Prosper Advisors either directs or recommends the allocation of client assets among the various investment options that are available with the product.

Prosper Advisors tailors its advisory services to the individual needs of clients. Prosper Advisors consults with clients initially and on an ongoing basis to develop an investment policy statement which determines risk tolerance, liquidity needs, time horizon and other factors that may impact the clients' investment needs. Prosper Advisors ensures that clients' investments are suitable for their investment needs, goals, objectives and risk tolerance.

Clients are advised to promptly notify Prosper Advisors if there are changes in their financial situation or investment objectives or if they wish to impose any reasonable restrictions upon Prosper Advisors' management services. Clients may impose reasonable restrictions or mandates on the management of their account (e.g., require that a portion of their assets be invested in socially responsible funds) if, in Prosper Advisors' sole discretion, the conditions will not materially impact the performance of a portfolio strategy or prove overly burdensome to its management efforts.

## Use of Independent Managers

---

As previously mentioned, Prosper Advisors recommends that certain clients authorize the active discretionary management of a portion of their assets by and/or among certain independent investment managers ("*Independent Managers*"), based upon the stated investment objectives of the client. The terms and conditions under which the client engages the *Independent Managers* are set forth in a separate written agreement between Prosper Advisors or the client and the designated *Independent Managers*. Prosper Advisors renders services to the client relative to the discretionary selection of *Independent Managers*. Prosper Advisors also monitors and reviews the account performance and the client's investment objectives. Prosper Advisors receives an annual advisory fee which is based upon a percentage of the market value of the assets being managed by the designated *Independent Managers*.

When selecting an *Independent Manager* for a client, Prosper Advisors reviews information about the *Independent Manager* such as its disclosure brochure and/or material supplied by the *Independent Manager* or independent third parties for a description of the *Independent Manager's* investment strategies, past performance and risk results to the extent available. Factors that Prosper Advisors considers in recommending an *Independent Manager* include the client's stated investment objectives, management style, performance, reputation, financial strength, reporting, pricing, and research. The investment management fees charged by the designated *Independent Managers*, together with the fees charged by the corresponding designated broker-dealer/custodian of the client's assets, may be exclusive of, and in addition to, Prosper Advisors' investment advisory fee. As discussed herein, the client may incur additional fees than those charged by Prosper Advisors, the designated *Independent Managers*, and corresponding broker-dealer and custodian. In addition to Prosper Advisors' Disclosure Brochure, the client also receives the Disclosure Brochure of the designated *Independent Managers*.

## Corporate Executive Services

---

Institutional clients can engage Prosper Advisors to provide a range of comprehensive and integrated advisory services to their management persons under a corporate executive servicing engagement.

Under such an engagement, Prosper Advisors advises on and integrates various aspects of its executive clients' finances, such as portfolio management, income tax planning, estate structuring, and financial plan development. Prosper Advisors seeks to develop tools and strategies that enable its clients to carve through the complexity of many financial issues and make reasoned and well-informed investment decisions. In addition, Prosper Advisors manages corporate executive programs, whereby the firm advises on equity based compensation structures and aids in the development of tax efficient arrangements designed to align executive and corporate goals. Generally, these services are provided through individualized engagements, which are customized to address the specific needs and objectives of a particular institution and its corporate executives.

## Item 5. Fees and Compensation

Prosper Advisors offers its services on a fee-only basis, which includes fixed fees, fees based upon assets under management, and fees based upon trust assets.

### Financial Planning and Consulting Fees

---

Prosper Advisors generally charges a fixed fee to provide clients with financial planning and consulting services. These fixed fees are negotiable, but generally range from \$5,000 to \$20,000, depending upon the scope and complexity of the services required for a particular engagement. If the client engages Prosper Advisors for additional investment advisory services, Prosper Advisors may offset all or a portion of its fees for those services based upon the amount paid for the financial planning or consulting services. Prior to engaging Prosper Advisors to provide financial planning and/or consulting services, the client is required to enter into an *Agreement* with the firm setting forth the relevant terms and conditions under the relationship.

For one-time, standalone engagements, Prosper Advisors generally requires one-half of the stated financial planning or consulting fee payable upon execution of the written agreement. The balance is generally due upon delivery of the financial plan or completion of the agreed upon services. For ongoing financial planning arrangements, one-half of the firm's set annual fee is generally due upfront and is attributable to the formation of, or modifications made to, the client's financial plan. The remainder of the fee is generally made payable six months thereafter and covers any ongoing plan maintenance and *ad hoc* consultations. All services are provided within six months of the receipt of any such fees.

In the event Prosper Advisors is engaged to serve as the trustee of a client's trust, the firm generally charges an annual fee based upon the amount of trust assets. This fee varies, depending upon the level of trust assets, as follows:

<u>TRUST VALUE</u>	<u>ANNUAL FEE</u>
First \$0 - \$2,000,000	1.00%
Next \$2,000,001 - \$10,000,000	0.80%
Next \$10,000,000 - \$20,000,000	0.65%
Balance greater than \$20,000,000	Negotiable

The firm's annual fee is charged quarterly, in advance, calculated as of the closing value of the assets on the last day of the previous quarter. Prosper Advisors' trustee fee is exclusive of, and in addition to, any administrative, legal, custodial or brokerage fees charged by the *Financial Institutions* (as defined on Page 9) where the trust assets are held.

# Prosper Advisors LLC Disclosure Brochure

## Investment Management Fees

Prosper Advisors provides investment management services for an annual fee based upon a blended percentage of the assets being managed by Prosper Advisors. The annual fee varies, depending upon the amount of assets under management and/or the type of portfolio management services being rendered, as follows:

### Equity & Blended Portfolios

*Internally Managed or Independent Manager Managed*

<u>PORTFOLIO VALUE</u>	<u>ANNUAL FEE</u>
First \$0 - \$2,000,000	0.85%
Next \$2,000,001 - \$10,000,000	0.65%
Next \$10,000,000 - \$20,000,000	0.50%
Balance greater than \$20,000,000	Negotiable

### Fixed Income Portfolios

*Independent Manager Managed*

<u>PORTFOLIO VALUE</u>	<u>ANNUAL FEE</u>
First \$1,000,000 - \$2,000,000	0.30%
Next \$2,000,001 - \$5,000,000	0.25%
Next \$5,000,001 - \$10,000,000	0.20%
Balance greater than \$10,000,000	Negotiable

### Reporting Only Assets

<u>PORTFOLIO VALUE</u>	<u>ANNUAL FEE</u>
First \$0 - \$20,000,000	0.20%
Balance greater than \$20,000,000	Negotiable
Concentrated Positions	Negotiable

Prosper Advisors' annual fee is charged quarterly, in advance, calculated as of the closing value of the assets being managed by Prosper Advisors on the last day of the previous quarter. This annual fee is exclusive of, and in addition to brokerage commissions, transaction fees, and other related costs and expenses, which are incurred directly by the client. Prosper Advisors does not, however, receive any portion of these commissions, fees, and costs.



## Corporate Executive Service Fees

---

Prosper Advisors generally offers its corporate executive services to institutional clients for a flat, fixed fee, which ranges, depending upon the size, scope and complexity of a particular engagement. The specific billing arrangements are individually negotiated and agreed upon prior to the rendering of any such services.

## Fee Discretion

---

Prosper Advisors, in its sole discretion, may negotiate to charge a lesser management fee based upon certain criteria (i.e., anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client, account retention, *pro bono* activities, etc.).

## Fees Charged by Financial Institutions

---

As further discussed in response to Item 12, Prosper Advisors generally recommends that clients utilize the brokerage and clearing services of Charles Schwab & Co., Inc. ("*Schwab*") for investment management accounts.

Prosper Advisors may only implement its investment management recommendations after the client has arranged for and furnished Prosper Advisors with all information and authorization regarding accounts with appropriate financial institutions. Financial institutions include, but are not limited to, *Schwab*, any other broker-dealer recommended by Prosper Advisors, broker-dealer directed by the client, trust companies, banks etc. (collectively referred to herein as the "*Financial Institutions*").

Clients may incur certain charges imposed by the *Financial Institutions* and other third parties such as fees charged by *Independent Managers*, custodial fees, charges imposed directly by a mutual fund or ETF in the account, which are disclosed in the fund's prospectus (e.g., fund management fees and other fund expenses), deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Additionally, for assets outside of any wrap fee programs, clients may incur brokerage commissions and transaction fees. Such charges, fees and commissions are exclusive of and in addition to Prosper Advisors' fee.

## Fee Debit

---

Prosper Advisors' *Agreement* and the separate agreement with any *Financial Institutions* generally authorize Prosper Advisors or *Independent Managers* to debit the client's account for the amount of Prosper Advisors' fee and to directly remit that management fee to Prosper Advisors or the *Independent Managers*. Any *Financial Institutions* recommended by Prosper Advisors have agreed to send a statement to the client, at least quarterly, indicating all amounts disbursed from the account including the

amount of management fees paid directly to Prosper Advisors. Alternatively, clients may elect to have Prosper Advisors send an invoice for payment.

### **Fees for Management During Partial Quarters of Service**

---

For the initial period of investment management services, the fees are calculated on a *pro rata* basis.

The *Agreement* between Prosper Advisors and the client will continue in effect until terminated by either party pursuant to the terms of the *Agreement*. Prosper Advisors' fees are prorated through the date of termination and any remaining balance is charged or refunded to the client, as appropriate.

Clients may make additions to and withdrawals from their account at any time, subject to Prosper Advisors' right to terminate an account. Additions may be in cash or securities provided that Prosper Advisors reserves the right to liquidate any transferred securities or decline to accept particular securities into a client's account. Clients may withdraw account assets on notice to Prosper Advisors, subject to the usual and customary securities settlement procedures. However, Prosper Advisors designs its portfolios as long-term investments and the withdrawal of assets may impair the achievement of a client's investment objectives. Prosper Advisors may consult with its clients about the options and ramifications of transferring securities. However, clients are advised that when transferred securities are liquidated, they are subject to transaction fees, fees assessed at the mutual fund level (i.e. contingent deferred sales charge) and/or tax ramifications.

The firm generally does not adjust or prorate its advisory fees for partial withdrawals or deposits made in an account after the inception of a billing quarter. Under limited circumstances, Prosper Advisors may elect to prorate its fees for certain withdrawals that it determines to be excessive in an existing account.

### **Item 6. Performance-Based Fees and Side-by-Side Management**

Prosper Advisors does not provide any services for performance-based fees. Performance-based fees are those based on a share of capital gains on or capital appreciation of the assets of a client.

## Item 7. Types of Clients

Prosper Advisors provides its services to individuals, pension and profit sharing plans, trusts, estates, charitable organizations, corporations and business entities.

### Minimum Fee

---

Prosper Advisors generally imposes a minimum annual fee of \$8,000 to manage equity and blended portfolios, and a minimum quarterly fee of \$500 for *Independent Manager* managed fixed income portfolios. Prosper Advisors, in its sole discretion, may waive its minimum annual fee based upon certain criteria including anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client, account retention, and *pro bono* activities.

Additionally, certain *Independent Managers* may impose more restrictive account requirements and varying billing practices than Prosper Advisors. In such instances, Prosper Advisors may alter its corresponding account requirements and/or billing practices to accommodate those of the *Independent Managers*.

## Item 8. Methods of Analysis, Investment Strategies and Risk of Loss

### Methods of Analysis

---

Prosper Advisors utilizes a combination of fundamental, technical and cyclical methods of analysis.

Fundamental analysis involves the examination of the fundamental financial state and competitive position of a company. Under this methodology, Prosper Advisors generally analyzes the financial condition, capabilities of management, earnings, new products and services, as well as the company's markets and position amongst its competitors in order to determine the recommendations made to clients. The primary risk in using fundamental analysis is that while the overall health and position of a company may be good, market conditions may negatively impact the security.

Technical analysis involves the assessment of historical market data rather than specific company information in determining the recommendations made to clients. Technical analysis may involve the use of quantitative based metrics and charts to identify market patterns and trends which may be based on investor sentiment rather than the fundamentals of the company. The primary risk in using technical analysis is that spotting historical trends may not help to predict such trends in the future. Even if the trend will eventually reoccur, there is no guarantee that Prosper Advisors will be able to accurately predict such a reoccurrence.

Cyclical analysis is similar to technical analysis in that it involves the inspection of market conditions at a macro (entire market / economy) or micro (company specific) level, rather than the overall fundamental analysis of the health of the particular company that Prosper Advisors is recommending. The risks with cyclical analysis are similar to those of technical analysis, as discussed immediately above.

### Investment Strategies

---

Prosper Advisors takes a holistic approach to portfolio management, meeting with clients on an initial and ongoing basis in an effort to achieve a deep understanding of their investment objectives, financial needs, time horizon and risk tolerance. The firm seeks to clarify the risks and rewards of investment, and strives to remove the emotion from the investment decision making process.

Prosper Advisors then designs a corresponding asset allocation, codified in an investment policy statement with the goal of building the most favorable risk/reward profile in light of its clients' individual circumstances. The firm seeks to construct tax efficient and cost conscious investment portfolios from its open architecture database of investment solutions. Prosper Advisors typically implements a number of different trading and overlay strategies within a given portfolio, including anything from traditional equities and fixed income to complex hedging and private equity positions.

## Risks of Loss

---

### *Mutual Funds and Exchange Traded Funds (ETFs)*

An investment in a mutual fund or ETF involves risk, including the loss of principal. Mutual fund and ETF shareholders are necessarily subject to the risks stemming from the individual issuers of the fund's underlying portfolio securities. Such shareholders are also liable for taxes on any fund-level capital gains, as mutual funds and ETFs are required by law to distribute capital gains in the event they sell securities for a profit that cannot be offset by a corresponding loss.

Shares of mutual funds are generally distributed and redeemed on an ongoing basis by the fund itself or a broker acting on its behalf. The trading price at which a share is transacted is equal to a fund's stated daily per share net asset value ("NAV"), plus any shareholders fees (e.g., sales loads, purchase fees, redemption fees). The per share NAV of a mutual fund is calculated at the end of each business day, although the actual NAV fluctuates with intraday changes to the market value of the fund's holdings. The trading prices of a mutual fund's shares may differ significantly from the NAV during periods of market volatility, which may, among other factors, lead to the mutual fund's shares trading at a premium or discount to NAV.

Shares of ETFs are listed on securities exchanges and transacted at negotiated prices in the secondary market. Generally, ETF shares trade at or near their most recent NAV, which is generally calculated at least once daily for indexed-based ETFs and more frequently for actively managed ETFs. However, certain inefficiencies may cause the shares to trade at a premium or discount to their pro rata NAV. There is also no guarantee that an active secondary market for such shares will develop or continue to exist. Generally, an ETF only redeems shares when aggregated as creation units (usually 50,000 shares or more). Therefore, if a liquid secondary market ceases to exist for shares of a particular ETF, a shareholder may have no way to dispose of such shares.

### *Options*

Options allow investors to buy or sell a security at a contracted "strike" price (not necessarily the current market price) at or within a specific period of time. Clients may pay or collect a premium for buying or selling an option. Investors transact in options to either hedge (limit) losses in an attempt to reduce risk or to speculate on the performance of the underlying securities. Options transactions contain a number of inherent risks, including the partial or total loss of principal in the event that the value of the underlying security or index does not increase/decrease to the level of the respective strike price. Holders of options contracts are also subject to default by the option writer which may be unwilling or unable to perform its contractual obligations.

# Prosper Advisors LLC Disclosure Brochure

## *Market Risks*

The profitability of a significant portion of Prosper Advisors' recommendations may depend to a great extent upon correctly assessing the future course of price movements of stocks and bonds. There can be no assurance that Prosper Advisors will be able to predict those price movements accurately.

## *Use of Independent Managers*

Prosper Advisors may recommend the use of *Independent Managers* for certain clients. Prosper Advisors will continue to do ongoing due diligence of such managers, but such recommendations relies, to a great extent, on the *Independent Managers* ability to successfully implement their investment strategy. In addition, Prosper Advisors does not have the ability to supervise the *Independent Managers* on a day-to-day basis other than as previously described in response to Item 4.

## *Use of Private Collective Investment Vehicles*

Prosper Advisors may recommend the investment by certain clients in privately placed collective investment vehicles (some of which may be typically called "hedge funds"). The managers of these vehicles will have broad discretion in selecting the investments. There are few limitations on the types of securities or other financial instruments which may be traded and no requirement to diversify. The hedge funds may trade on margin or otherwise leverage positions, thereby potentially increasing the risk to the vehicle. In addition, because the vehicles are not registered as investment companies, there is an absence of regulation. There are numerous other risks in investing in these securities. The client will receive a private placement memorandum and/or other documents explaining such risks.

## *General Risk of Loss*

Investing in securities involves the risk of loss. Clients should be prepared to bear such loss.

### **Item 9. Disciplinary Information**

Prosper Advisors is required to disclose the facts of any legal or disciplinary events that are material to a client's evaluation of its advisory business or the integrity of management. Prosper Advisors does not have any required disclosures to this Item.



### Item 10. Other Financial Industry Activities and Affiliations

Prosper Advisors is required to disclose any relationship or arrangement that is material to its advisory business or to its clients with certain related persons.

#### **Related Accounting Firm**

---

Nadine Lee, the President and Principal Owner of Prosper Advisors, is a Member and Certified Public Accountant of Nadine Gordon Lee CPA, PLLC (hereinafter "*NGL*").

Prosper Advisors does not render accounting advice or tax preparation services to its clients. To the extent that an advisory client requires accounting advice and/or tax preparation services, the firm, if requested, may recommend the services *NGL*. All such services are rendered independent of Prosper Advisors pursuant to a separate agreement between the client and the *NGL*. While Prosper Advisors does not receive any of the fees charged by *NGL*, Nadine Lee may receive a portion of these fees by virtue of her respective ownership stake in *NGL*. A conflict of interest exists to the extent that Prosper Advisors recommends the services of *NGL* and Nadine Lee receives compensation as a result of her interest therein. Clients are under no obligation to act on the recommendation of Prosper Advisors.

## Item 11. Code of Ethics

Prosper Advisors and persons associated with Prosper Advisors (“Associated Persons”) are permitted to buy or sell securities that it also recommends to clients consistent with Prosper Advisors’ policies and procedures.

Prosper Advisors has adopted a code of ethics that sets forth the standards of conduct expected of its associated persons and requires compliance with applicable securities laws (“*Code of Ethics*”). In accordance with Section 204A of the Investment Advisers Act of 1940 (the “Advisers Act”), its *Code of Ethics* contains written policies reasonably designed to prevent the unlawful use of material non-public information by Prosper Advisors or any of its associated persons. The *Code of Ethics* also requires that certain of Prosper Advisors’ personnel (called “*Access Persons*”) report their personal securities holdings and transactions and obtain pre-approval of certain investments such as initial public offerings and limited offerings.

Unless specifically permitted in Prosper Advisors’ *Code of Ethics*, none of Prosper Advisors’ *Access Persons* may effect for themselves or for their immediate family (i.e., spouse, minor children, and adults living in the same household as the *Access Person*) any transactions in a security which is being actively purchased or sold, or is being considered for purchase or sale, on behalf of any of Prosper Advisors’ clients.

When Prosper Advisors is purchasing or considering for purchase any security on behalf of a client, no *Access Person* may effect a transaction in that security prior to the completion of the purchase or until a decision has been made not to purchase such security. Similarly, when Prosper Advisors is selling or considering the sale of any security on behalf of a client, no *Access Person* may effect a transaction in that security prior to the completion of the sale or until a decision has been made not to sell such security. These requirements are not applicable to: (i) direct obligations of the Government of the United States; (ii) money market instruments, bankers’ acceptances, bank certificates of deposit, commercial paper, repurchase agreements and other high quality short-term debt instruments, including repurchase agreements; (iii) shares issued by mutual funds or money market funds; and (iv) shares issued by unit investment trusts that are invested exclusively in one or more mutual funds.

Clients and prospective clients may contact Prosper Advisors to request a copy of its *Code of Ethics*.

## Item 12. Brokerage Practices

As discussed previously in Item 5, Prosper Advisors generally recommends that clients utilize the brokerage and clearing services of *Schwab*.

Factors which Prosper Advisors considers in recommending *Schwab* or any other broker-dealer to clients include their respective financial strength, reputation, execution, pricing, research and service. *Schwab* may enable Prosper Advisors to obtain many mutual funds without transaction charges and other securities at nominal transaction charges. The commissions and/or transaction fees charged by *Schwab* may be higher or lower than those charged by other *Financial Institutions*.

The commissions paid by Prosper Advisors' clients comply with the firm's duty to obtain "best execution." Clients may pay commissions that are higher than another qualified *Financial Institution* might charge to effect the same transaction where Prosper Advisors determines that the commissions are reasonable in relation to the value of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a *Financial Institution's* services, including among others, the value of research provided, execution capability, commission rates, and responsiveness. Prosper Advisors seeks competitive rates but may not necessarily obtain the lowest possible commission rates for client transactions.

Prosper Advisors periodically and systematically reviews its policies and procedures regarding its recommendation of *Financial Institutions* in light of its duty to obtain best execution.

The client may direct Prosper Advisors in writing to use a particular *Financial Institution* to execute some or all transactions for the client. In that case, the client will negotiate terms and arrangements for the account with that *Financial Institution*, and Prosper Advisors will not seek better execution services or prices from other *Financial Institutions* or be able to "batch" client transactions for execution through other *Financial Institutions* with orders for other accounts managed by Prosper Advisors. As a result, the client may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case. Subject to its duty of best execution, Prosper Advisors may decline a client's request to direct brokerage if, in Prosper Advisors' sole discretion, such directed brokerage arrangements would result in additional operational.

Transactions for each client generally will be effected independently, unless Prosper Advisors decides to purchase or sell the same securities for several clients at approximately the same time. Prosper Advisors may (but is not obligated to) combine or "batch" such orders to obtain best execution, to negotiate more favorable commission rates, or to allocate equitably among Prosper Advisors' clients differences in prices and commissions or other transaction costs that might have been obtained had such orders been placed independently. Under this procedure, transactions will generally be averaged as to price and allocated among Prosper Advisors' clients pro rata to the purchase and sale orders placed for each client on any given day. To the extent that Prosper Advisors determines to aggregate client orders for the purchase or

sale of securities, including securities in which Prosper Advisors' *Supervised Persons* may invest, Prosper Advisors generally does so in accordance with applicable rules promulgated under the Advisers Act and no-action guidance provided by the staff of the U.S. Securities and Exchange Commission. Prosper Advisors does not receive any additional compensation or remuneration as a result of the aggregation. In the event that Prosper Advisors determines that a prorated allocation is not appropriate under the particular circumstances, the allocation will be made based upon other relevant factors, which may include: (i) when only a small percentage of the order is executed, shares may be allocated to the account with the smallest order or the smallest position or to an account that is out of line with respect to security or sector weightings relative to other portfolios, with similar mandates; (ii) allocations may be given to one account when one account has limitations in its investment guidelines which prohibit it from purchasing other securities which are expected to produce similar investment results and can be purchased by other accounts; (iii) if an account reaches an investment guideline limit and cannot participate in an allocation, shares may be reallocated to other accounts (this may be due to unforeseen changes in an account's assets after an order is placed); (iv) with respect to sale allocations, allocations may be given to accounts low in cash; (v) in cases when a pro rata allocation of a potential execution would result in a *de minimis* allocation in one or more accounts, Prosper Advisors may exclude the account(s) from the allocation; the transactions may be executed on a pro rata basis among the remaining accounts; or (vi) in cases where a small proportion of an order is executed in all accounts, shares may be allocated to one or more accounts on a random basis.

Consistent with obtaining best execution, brokerage transactions may be directed to certain broker-dealers in return for investment research products and/or services which assist Prosper Advisors in its investment decision-making process. Such research generally will be used to service all of Prosper Advisors' clients, but brokerage commissions paid by one client may be used to pay for research that is not used in managing that client's portfolio. The receipt of investment research products and/or services as well as the allocation of the benefit of such investment research products and/or services poses a conflict of interest because Prosper Advisors does not have to produce or pay for the products or services.

### **Software and Support Provided by Financial Institutions**

---

Prosper Advisors may receive from *Schwab*, without cost to Prosper Advisors, computer software and related systems support, which allow Prosper Advisors to better monitor client accounts maintained at *Schwab*. Prosper Advisors may receive the software and related support without cost because Prosper Advisors renders investment management services to clients that maintain assets at *Schwab*. The software and related systems support may benefit Prosper Advisors, but not its clients directly. In fulfilling its duties to its clients, Prosper Advisors endeavors at all times to put the interests of its clients first. Clients should be aware, however, that Prosper Advisors' receipt of economic benefits from a broker-dealer creates a conflict of interest since these benefits may influence Prosper Advisors' choice of broker-dealer over another broker-dealer that does not furnish similar software, systems support, or services.

## Prosper Advisors LLC Disclosure Brochure

In addition, Prosper Advisors may receive the following benefits from *Schwab* through the Schwab Institutional:

- Receipt of duplicate client confirmations and bundled duplicate statements;
- Access to a trading desk that exclusively services their Institutional participants;
- Access to block trading which provides the ability to aggregate securities transactions and then allocate the appropriate shares to client accounts; and
- Access to an electronic communication network for client order entry and account information.

## Item 13. Review of Accounts

### Account Reviews

---

For those clients to whom Prosper Advisors provides investment management services, Prosper Advisors monitors those portfolios as part of an ongoing process while regular account reviews are conducted on at least a quarterly basis. For those clients to whom Prosper Advisors provides financial planning and/or consulting services, reviews are conducted on an “as needed” basis. Such reviews are conducted by one of Prosper Advisors’ investment adviser representatives. All investment advisory clients are encouraged to discuss their needs, goals, and objectives with Prosper Advisors and to keep Prosper Advisors informed of any changes thereto. Prosper Advisors contacts ongoing investment advisory clients at least annually to review its previous services and/or recommendations and to discuss the impact resulting from any changes in the client’s financial situation and/or investment objectives.

### Reports and Account Statements

---

Unless otherwise agreed upon, clients are provided with transaction confirmation notices and regular summary account statements directly from the broker-dealer or custodian for the client accounts. Those clients to whom Prosper Advisors provides investment advisory services also receive reports from Prosper Advisors that may include such relevant account and/or market-related information such as an inventory of account holdings and account performance on a quarterly basis. Clients should compare the account statements they receive from their custodian with those they receive from Prosper Advisors.

### Financial Planning and Consulting Reports

---

Those clients to whom Prosper Advisors provides financial planning and/or consulting services will receive reports from Prosper Advisors summarizing its analysis and conclusions as requested by the client or otherwise agreed to in writing by Prosper Advisors.

## Item 14. Client Referrals and Other Compensation

### Other Economic Benefits

---

Prosper Advisors is required to disclose any relationship or arrangement where it receives an economic benefit from a third party (non-client) for providing advisory services. Prosper Advisors may receive economic benefits from non-clients for providing advice or other advisory services to clients. This type of relationship poses a conflict of interest and any such relationship is disclosed in response to Item 12.

### Client Referrals

---

The firm is required to disclose any direct or indirect compensation that it provides for client referrals. Prosper Advisors does not compensate for referrals.

### Item 15. Custody

Prosper Advisors' *Agreement* and/or the separate agreement with any *Financial Institution* may authorize Prosper Advisors through such *Financial Institution* to debit the client's account for the amount of Prosper Advisors' fee and to directly remit that management fee to Prosper Advisors in accordance with applicable custody rules.

The *Financial Institutions* recommended by Prosper Advisors have agreed to send a statement to the client, at least quarterly, indicating all amounts disbursed from the account including the amount of management fees paid directly to Prosper Advisors. In addition, as discussed in Item 13, Prosper Advisors also sends periodic supplemental reports to clients. Clients should carefully review the statements sent directly by the *Financial Institutions* and compare them to those received from Prosper Advisors.



### Item 16. Investment Discretion

Prosper Advisors may be given the authority to exercise discretion on behalf of clients. Prosper Advisors is considered to exercise investment discretion over a client's account if it can effect transactions for the client without first having to seek the client's consent. Prosper Advisors is given this authority through the execution of the advisory agreement between the client and the firm. Clients may request a limitation on this authority (such as certain securities not to be bought or sold). Prosper Advisors takes discretion over the following activities:

- The securities to be purchased or sold;
- The amount of securities to be purchased or sold; and
- When transactions are made; and
- The *Independent Managers* to be hired and fired.

### Item 17. Voting Client Securities

Prosper Advisors may vote client securities (proxies) on behalf of its clients. When Prosper Advisors accepts such responsibility, it will only cast proxy votes in a manner consistent with the best interest of its clients. Absent special circumstances, which are fully- described in Prosper Advisors' Proxy Voting Policies and Procedures, all proxies will be voted consistent with guidelines established and described in Prosper Advisors' Proxy Voting Policies and Procedures, as they may be amended from time-to-time. Clients may contact Prosper Advisors to request information about how Prosper Advisors voted proxies for that client's securities or to get a copy of Prosper Advisors' Proxy Voting Policies and Procedures. A brief summary of Prosper Advisors' Proxy Voting Policies and Procedures is as follows:

- Prosper Advisors has formed a Proxy Voting Committee that will be responsible for monitoring corporate actions, making voting decisions in the best interest of clients, and ensuring that proxies are submitted in a timely manner.
- The Proxy Voting Committee will generally vote proxies according to Prosper Advisors' then current Proxy Voting Guidelines. The Proxy Voting Guidelines include many specific examples of voting decisions for the types of proposals that are most frequently presented, including: composition of the board of directors; approval of independent auditors; management and director compensation; anti-takeover mechanisms and related issues; changes to capital structure; corporate and social policy issues; and issues involving mutual funds.
- Although the Proxy Voting Guidelines are followed as a general policy, certain issues are considered on a case-by-case basis based on the relevant facts and circumstances. Since corporate governance issues are diverse and continually evolving, Prosper Advisors devotes an appropriate amount of time and resources to monitor these changes.
- Clients cannot direct Prosper Advisors' vote on a particular solicitation but can revoke Prosper Advisors' authority to vote proxies.

In situations where there may be a conflict of interest in the voting of proxies due to business or personal relationships that Prosper Advisors maintains with persons having an interest in the outcome of certain votes, Prosper Advisors takes appropriate steps to ensure that its proxy voting decisions are made in the best interest of its clients and are not the product of such conflict.

### Item 18. Financial Information

The firm has no information to disclose pursuant to this Item for the following reasons:

- Prosper Advisors does not require or solicit the prepayment of more than \$1,200 in fees six months or more in advance;
- Prosper Advisors does not have a financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients; and
- Prosper Advisors has not been the subject of a bankruptcy petition at any time during the past ten years.

## **Prosper Advisors LLC**

*a Registered Investment Adviser*

20 Bedford Road  
Armonk, New York 10504

(914) 730-3500

[www.ProsperAdv.com](http://www.ProsperAdv.com)

Prepared by:



**MARKETCOUNSEL®**  
*The Adviser's Advisor®*