

## **Custom Wealth Advantage**

### **Wrap Fee Program Brochure**

**March 30, 2012**

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**This wrap fee program brochure provides information about the qualifications and business practices of Lincoln Financial Securities Corporation. If you have any questions about the contents of this brochure, please contact us at (800) 258-3648 or by sending us an email at [LFSAdvisoryServices@lfg.com](mailto:LFSAdvisoryServices@lfg.com). 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. Registration as an investment adviser does not imply a certain level of skill or training.**

**Additional information about Lincoln Financial Securities Corporation also is available on the SEC's website at: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

## Summary of Material Changes (Form ADV, Part 2A – Item 2)

The United States Securities and Exchange Commission (“SEC”), the regulator with whom Lincoln Financial Securities is registered, requires that a disclosure brochure called the Form ADV, Part 2A be provided to clients and filed with the SEC. Changes that were incorporated into that brochure and included for the 3/30/12 filing with the SEC are:

1. The section of the document that describes solicitor programs was consolidated and now refers clients to the ADV 2A disclosure brochures of the main programs for which LFS acts as a solicitor.
2. The section regarding retirement plan services was updated to reflect the addition of certain services currently being offered on a limited basis.
3. The Disciplinary Information section was updated to add an event that was resolved in 2003. However, the SEC requires that disciplinary events remain on the ADV 2A for ten years. The item is regarding a consent order entered into on March 27, 2003 by LFS with the Commonwealth of Virginia State Corporation Commission in which LFS agreed to payment of a \$15,000 fine plus \$11,500 in investigation costs related to an allegation that the firm failed to adequately supervise the general securities activities of one of its former representatives.
4. The description of LFS’s Custom Wealth Advantage asset management program was consolidated and updated with new enhancements, including portfolio strategists, separately managed accounts, and advisor directed account programs. These new programs also included new fee disclosures.
5. The technology service provider for LFS’s Custom Wealth Advantage series of asset management programs changed from FundQuest to Envestnet Portfolio Solutions, reflecting Envestnet’s acquisition of FundQuest.

If you would like a copy of Form ADV, Part 2A or any other Lincoln Financial Securities Corporation brochure, please download it from the SEC web site at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov), or you may contact Lincoln Financial Securities Corporation at (800) 258-3648, or [LFSAdvisoryServices@lfg.com](mailto:LFSAdvisoryServices@lfg.com).

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## **SERVICES, FEES, AND COMPENSATION**

Lincoln Financial Securities Corporation (“LFS”) is an investment adviser registered with the United States Securities and Exchange Commission (the “SEC”) a broker-dealer registered with the SEC and appropriate state securities authorities, and is a member of the Financial Industry Regulatory Authority (“FINRA”). LFS was incorporated in 1969, and has been registered with the SEC as an investment adviser since 1985. LFS is wholly owned by Lincoln National Corporation (“LNC”). Lincoln Financial Group is the marketing name for Lincoln National Corporation and its affiliates.

LFS offers a wide variety of investment advisory programs and services. Investment adviser representatives of LFS (“LFS Representatives” or “IARs”) assist clients in pursuing their financial goals by providing personalized financial planning services and investment solutions. LFS’s main business activity is as a securities broker-dealer, effecting transactions in securities and providing related services. LFS’s primary investment advisory business is providing asset management services, including advice regarding the selection of other investment managers. A secondary investment advisory business is providing financial planning services to clients including affluent individuals, owners of closely held businesses, corporate executives and professionals. Investment advice, including financial planning advice, is usually based upon each client’s individual financial outlook and personal objectives. LFS provides clients access to investment solutions, either through investment advice, securities, or other financial products that may be used to implement clients financial plans and pursue clients investment objectives.

LFS Representatives are registered with the appropriate regulatory authorities to provide investment advice, financial planning, and asset management services. LFS Representatives are usually registered representatives of LFS in its capacity as a broker-dealer, and are qualified to sell various investment and insurance products. LFS requires that its representatives and other associates are registered with all appropriate regulatory agencies and pass all required examinations before conducting business on behalf of LFS.

LFS provides a variety of asset management services, and sponsors multiple wrap fee programs. The disclosure brochures describing all of LFS’s investment advisory services, and all of LFS’s wrap fee disclosure brochures can be found at the SEC’s public disclosure website, [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). These brochures may also be requested by contacting LFS at 800-258-3648 or by sending us an email at [LFSAdvisoryServices@lfg.com](mailto:LFSAdvisoryServices@lfg.com)

As of 12/31/11, LFS managed \$781,160,638 of client assets on a non-discretionary basis and \$136,226,066 on a discretionary basis.

## **CUSTOM WEALTH ADVANTAGE**

LFS is the sponsor of Custom Wealth Advantage (“CWA”), an investment advisory program offered primarily to individuals, corporations, pension and profit sharing plans, trusts, estates, charitable organizations, banks and other entities. LFS may allow its IARs, advisory representatives of affiliated investment advisers, or advisory representatives of independent registered investment advisers (collectively, “Advisers”), to offer the investment advisory services described here to their clients and potential clients. Through a written agreement with Envestnet Portfolio Solutions, Inc. (“EPS”) an investment adviser registered with the SEC, LFS has engaged EPS to provide various administrative services to CWA clients using the CWA Choice Program (as described below), and to provide administrative services and investment management services for clients electing the other CWA investment programs.

CWA provides clients access to continuous investment management services for investment portfolios through the following programs:

- (i) The CWA Choice Program, consisting of portfolios managed by Adviser, which may be composed of mutual funds, exchange traded funds (“ETFs”), individual securities, variable annuity contracts, and/or other investments based upon the investment strategy agreed upon with Client.
- (ii) The CWA Separately Managed Accounts Program, offering a broad array of investment strategies managed by third-party money managers (each, a “Sub-Manager”).
- (iii) The CWA Unified Managed Account Program (“CWA UMA Program”), offering the combined investment strategies of two or more Sub-Managers, mutual funds and/or ETFs managed by EPS within a single account.
- (iv) The CWA Mutual Fund Program, consisting of mutual fund portfolios managed by EPS.
- (v) The CWA Strategist Program, consisting of mutual fund and/or ETF portfolios managed by EPS pursuant to the investment recommendations of one or more third-party asset allocation providers (each, a “Strategist”).

Accounts in the CWA program (each, a “Program Account”) will be held at Pershing LLC (“Pershing”). Pershing will also serve as custodian for retirement accounts in the CWA program. Pershing will forward confirmations of each purchase and sale to the client, unless client elects to waive trade confirmations for each individual purchase and sale transaction. Any such election is voluntary, and not a mandatory condition for establishing or maintaining a Program Account. Clients electing to waive receipt of individual transaction confirmations will continue to receive monthly statements providing information on all transactions taking place in the account.

Once the client selects an Adviser and enters into an advisory relationship, the Adviser will request information from the client regarding the client’s financial background, investment experience, investment objectives, and risk tolerance, among other things, in determining the suitability and appropriateness of CWA for the client. A client should promptly contact their Adviser any time the client’s financial situation or investment objectives change, or if any of the information previously provided to the Adviser has materially changed. The Adviser can then determine whether the account and its investments remain appropriate, or if any changes should be recommended.

Once an advisory relationship is established, there are no restrictions on a client’s ability to contact LFS or the Adviser. The Adviser will contact the client periodically to determine if there have been any changes in the client’s financial information so that the investment strategy of the account may be adjusted accordingly. The information provided by the client will be shared with EPS and Sub-Managers as applicable; and EPS and each applicable Sub-Manager will base their respective investment recommendations on the information provided by the client.

## Investment Strategies and Analysis

LFS's investment services generally cover exchange-listed, over-the-counter and foreign securities, ETFs, warrants, fixed income securities, options, variable life and annuity contracts, corporate debt, municipal securities, U.S. Treasury and government agency bonds, unit investment trusts, commercial paper, CDs, and mutual fund shares. Certain mutual funds, annuity and insurance products, and other managed investment products, including money market funds, may be managed or distributed by an affiliate of LFS.

Each Adviser managing a CWA Choice account chooses his/her own research methods, investment style, and management philosophy. The investment strategies used by an Adviser may include long and short-term purchases. Advisers may use a number of sources of financial information in their analysis of securities, which may include financial publications, research reports, timing and rating services, annual reports, prospectuses and SEC filings, among other sources of information. Research services are received in various forms, which may include written reports, electronic communications, software, meetings, or telephone contacts with individuals and companies in the securities and financial industries. Various methods of analysis may be used including charting, technical and fundamental analysis.

Within the CWA Choice Program, the Adviser will direct the investment and reinvestment of client assets in the Program Account. The Program Account will be managed by the Adviser consistent with an investment style selected by the client using investments that may include mutual funds, ETFs, stocks, bonds, options, variable annuity and insurance products and other investments. On a periodic basis, the Adviser will review client's account and direct the management and allocation of the investments within the account depending on the client's investment objectives. CWA Choice accounts are generally managed on a non-discretionary basis. In certain circumstances, and only after specific written consent is obtained from the client, a CWA account may be managed on a discretionary basis by the Adviser. Where discretionary authority is granted to Adviser, the authority is limited to trade authorization, and does not extend to the transfer of money or securities from the account on behalf of the client, except for the purpose of debiting fees from the Program Account or such other account designated by the client. Clients may impose reasonable limitations or restrictions on the Adviser, including the Adviser's discretionary authority. Any such limitations are to be in writing and may include, as an example, restrictions on the purchase of particular securities, industries or asset classes.

For the other CWA programs, EPS will offer various investment strategies for consideration by a client based on the client's needs and objectives, investment time horizon, risk tolerance and other pertinent factors. EPS's research team uses a number of analytical tools and software programs in developing its asset allocation strategies. Among the factors considered in designing these strategies are historical rates of risk and return for various asset classes and correlation among asset class returns. EPS will propose an overall strategy that includes asset allocation and investment portfolio recommendations for the asset classes. A client may elect one or more strategies offered by EPS that is most aligned with the client's objectives and risk tolerance. For more information on EPS's investment management services, please see EPS's ADV, Part 2A and/or disclosure brochure.

For the CWA Separately Managed Accounts program, the client has access to the investment management services of Sub-Managers and their different investment styles including Equity, Balanced and Fixed Income, among others. EPS and Adviser will recommend individual Sub-Managers and investment vehicles that correspond to the proposed asset classes and styles. For certain Sub-Managers, EPS has entered into a licensing agreement with the Sub-Manager, whereby EPS performs model management, administrative and/or trading implementation duties pursuant to the direction of the Sub-Manager. In such case the Sub-Manager is acting in the role of an investment model provider (a "Model Provider").

In the CWA UMA program, the client can select a single portfolio that accesses multiple asset managers representing various asset classes. In each UMA portfolio, EPS will combine the investment strategies of one or more Model Providers in addition to complementary mutual funds and/or ETFs in order to create an allocated portfolio. EPS shall provide ongoing management of the portfolio and periodically replace Model Providers, mutual funds and/or ETFs in its discretion. EPS provides overlay management services for CWA UMA accounts and client directly owns the underlying securities in the portfolio.

For the CWA Mutual Fund program, EPS will create an asset allocation portfolio consisting of one or more mutual funds based on the investment strategy selected by the client. Within this program, a client may select one of the Active Passive Portfolios, portfolios consisting entirely or substantially of EPS's proprietary mutual funds, the ActivePassive Funds®. EPS is the investment adviser to the ActivePassive Funds and receives a management fee from each fund, which varies by fund and is described in the ActivePassive Funds' prospectus. EPS does not receive additional compensation for Program Assets managed in an Active Passive Portfolio. The CWA Mutual Fund program is a fully discretionary mutual fund wrap program managed by EPS, offering model portfolios with various risk/return profiles. Once the client's assets are invested, EPS may add, remove or replace mutual funds at its discretion.

For the CWA Strategist Program, EPS will manage asset allocation portfolios consisting of mutual funds and/or ETFs on a discretionary basis based on the investment recommendations of the Strategist(s) selected by the client. Each Strategist shall be retained by EPS pursuant to an agreement with each Strategist for portfolio management services on terms and in the manner that EPS deems appropriate. For each Strategist, EPS has entered into a licensing agreement, whereby EPS performs model management, administrative and/or trading implementation duties pursuant to the direction of the Strategist. In such case the Strategist is acting in the role of a Model Provider.

## Fees

Program Fees for the CWA program are assessed based on an annual percentage of the client's assets under management. The Program Fees are charged quarterly, in advance based on the average daily balance of the Program Account of the previous quarter; and the initial fee is prorated to the end of the quarter if the account is opened on any day other than the first day of a quarter. Fees will be debited from the client's Program Account, or such other account that the client designates for the purpose of payment of fees. The maximum annual Program Fee is 3.00% of client's assets under management. Fees are negotiated with each client based on the size and complexity of each client's circumstances. Each Adviser will negotiate with each client to determine the fees to be charged; therefore fees may vary among Advisers and clients, and some Advisers may charge higher fees than other Advisers for similar services. Fees will be debited from the account in accordance with the client authorization in the Client Services Agreement. There is a minimum annual Program Fee charged per Program Account for participation in the Program.

The Program Fee paid by the client includes the LFS advisory fees, the Adviser's fees, and EPS's administrative and management fees. Depending on the program selected, a portion of the program fees may be paid to a Sub-Manager, Strategist, or to Pershing to compensate each of them for their respective services. Fees charged by each entity providing services to the program vary based on the program selected, investment products used, and the size of the account and/or household, among other factors. For certain investment strategies, such as Strategists using ETFs and Sub-Manager strategies, the custodian and/or broker-dealer may charge an asset-based fee to account for trading costs, or transaction-based charges may apply. This may be included in the Program Fee or may be assessed as a separate charge by the custodian or broker-dealer. The standard range of asset-based fees for each party is as follows:

LFS:	up to 0.20% of account assets
EPS:	up to 0.18% of account assets
Strategists:	up to 0.50% of account assets
Sub-Managers:	up to 0.85% of account assets
Pershing:	up to 0.25% of account assets

Actual fees charged to a specific client or account will vary, and will be disclosed in the statement of investment selection signed by the client upon election of services under the CWA program. Fees will not be charged on the basis of a share of capital gains or capital appreciation of a client's funds or any portion of a client's funds. Other costs that may be charged to the Client and that are not part of the Program Fee include retirement account maintenance fees, retirement account termination fees, fees for portfolio transactions executed away from Broker, dealer mark-ups, electronic fund and wire transfers, spreads paid to market-makers, dealer mark-ups, market maker spreads and exchange fees, and other fees and charges customary to securities brokerage accounts. Transaction fees may apply when certain assets are traded by Adviser in the CWA Choice program, or are liquidated prior to EPS or a Sub-Manager commencing investment management services.

For some investment strategies, EPS will usually purchase mutual funds that participate in Pershing's designated no transaction fee ("NTF") program. At times, these NTF mutual funds may elect to cease participation in Pershing's NTF program. When that occurs a client may be charged a transaction fee with the liquidation of that particular fund. Some mutual funds may impose a short-term redemption fee upon liquidation of a mutual fund position if that particular position was not held for a sufficient amount of time as described and outlined in the individual mutual fund's prospectus. Neither LFS, Adviser, Pershing nor EPS determine or receive any portion of the short term redemption fee imposed by a mutual fund.

In addition to the program fee and transaction charges noted previously, Client may also incur certain charges imposed by third parties in connection with the investments made through Program Accounts. These may include, but are not limited to, the following: mutual fund or money market 12b-1 and subtransfer fees, mutual fund or money market management fees and administrative expenses, certain deferred sales charges on previously purchased mutual funds transferred into the account, other transaction charges and service fees, and other charges permitted or required by law. LFS and Adviser may receive a portion of these fees. Further information regarding costs and fees charged by a mutual fund, ETF, variable annuity or similar investment vehicle is available in the appropriate prospectus.

Clients may terminate an advisory relationship within five business days of signing an advisory agreement without penalty or thereafter upon written notice to LFS. A Program Account may be terminated by either party upon receipt of written notice to the other parties. Upon termination, any prepaid, unearned fees will be refunded to the client on a prorated basis. A client could invest in mutual funds and other investment products directly, without the services of LFS or Adviser. In that case, the client would not receive the services provided by LFS or Adviser, which are designed, among other things, to assist the client in determining which mutual funds or other investments are appropriate to each client's financial condition and objectives. Accordingly, the client should review both the fees charged by the mutual funds and other investment products and the fees charged and services provided by LFS and Adviser to understand the total amount of fees to be paid by the client and thereby evaluate the services being provided.



CWA accounts are held at Pershing and clients must generally use Pershing or an affiliate for execution services. Sub-Managers and EPS will have the authority to effect transactions for the Program Accounts with or through another broker, dealer or bank if EPS or Sub-Manager (as applicable) believes that “best execution” of transactions may be obtained through such other broker, dealer or bank, including any broker-dealer that is affiliated with LFS, Adviser, EPS or Sub-Manager. LFS serves as introducing broker dealer on CWA accounts. Through its respective clearing relationship with Pershing, LFS will receive certain revenue related to assets held, transactions, and activity in Program Accounts. Such revenue may include a portion of any transaction charge assessed to a client or Adviser, asset-based revenue from mutual funds designated by Pershing as NTF mutual funds, revenue from cash balances held in certain money market mutual funds designated as “cash sweep” vehicles, and other revenue from mutual funds pursuant to Rule 12b-1 under the Investment Company Act of 1940. LFS, the Adviser, Pershing, and EPS and each of their respective affiliates may share in these fees. The availability of these fees may be a factor in negotiating the client’s annual account fee.

In considering the investment programs described in this brochure and the brokerage-related services provided by LFS, Pershing and EPS and their respective affiliates, a prospective client should be aware that the program may cost a client more or less than purchasing the services separately from other advisers or broker-dealers. The factors that should be considered by a prospective client include the size of a client’s portfolio, the nature of the investments to be managed, commission costs, custodial expenses, if any, the anticipated level of trading activity and the amount of advisory fees for managing the client portfolio. Advisers recommending CWA will receive compensation as a result of a client’s participation in the program. The amount of the compensation may be more than what the Adviser would receive if the client participated in other investment programs or paid separately for investment advice, brokerage and other services. Therefore, the Advisers, LFS and their respective principals and affiliates may have a financial incentive to recommend CWA over other programs or services. The Adviser, LFS and their respective principals and affiliates may recommend buying and selling securities for their own accounts or for the accounts of other clients which differ from advice given or actions taken in providing advisory services to the Program Account.

LFS Representatives may receive additional compensation and/or incentive awards for reaching certain levels of assets under management in the investment advisory programs, or generating a certain amount of fee revenue or total revenue in a certain period. The client will not be charged any additional fees due to these circumstances. However, the receipt of additional compensation presents a conflict of interest and may affect the judgment of the LFS Representative.

Most LFS IARs are Registered Representatives of LFS in its capacity as a broker-dealer, and may be licensed agents of The Lincoln National Life Insurance Company (“LNL”). In most cases, the LFS Representative may recommend products that are managed and/or sold by Lincoln companies. The LFS Representative may receive additional compensation on these products, provided that these products are suitable for the client’s objectives. Additionally, Lincoln companies will profit from any sales of their products to clients of LFS. This presents a conflict of interest and gives LFS and its Representatives an incentive to recommend investment products based on the compensation received, rather than on a client’s needs. All of this information is fully disclosed in writing to the client at the time of entering into an advisory contract.

LFS, LNL and their affiliated companies have suitability requirements, as well as regulatory and compliance rules and procedures which must be followed. In addition, LFS maintains a supervisory system that includes conducting periodic supervisory and compliance inspections and audits of its IARs and its business.

In most instances, LFS Representatives may only recommend products offered through LFS where LFS has a selling agreement with the product sponsors. This does not generally include “no-load” mutual funds or non-registered insurance or annuity products.

Clients have the option to purchase investment products recommended by LFS and its Representatives through other brokers or agents that are not affiliated with LFS.

Commissions and other compensation for the sale of investment products provide the primary compensation for LFS and many of its Representative, however, commissions are not charged by LFS or its Representatives in connection with transactions in the CWA program. LFS does not generally reduce its advisory fees to offset any applicable commissions or markups.

LFS may receive revenue from various mutual fund companies, broker-dealers, investment advisors and/or their affiliates in connection with its investment advisory programs and services. The amounts LFS receives may vary depending on the particular investment. LFS Representatives may act as agents of the companies whose products they sell, and may provide services to clients on their behalf. LFS Representatives may be compensated by LFS and/or the product manufacturer via commissions, asset-based fees, and/or other compensation which may be built into the costs and charges of the product.

In some cases, LFS Representatives receive more compensation when placing Lincoln Financial Group manufactured products, and may qualify for additional compensation based on the volume of those sales over time. LFS Representatives are also eligible for additional compensation and/or other incentives based on factors such as sales volume of certain Lincoln products, the length of time that clients keep assets in the products, and/or the profitability of the products. They may also receive compensation based on the sales of Lincoln products by other Representatives. LFS Representatives may also participate in benefit programs whose costs are partially reimbursed by Lincoln affiliates, and/or which are based on sales volume of Lincoln products. LFS-affiliated companies may also benefit financially from the sale of Lincoln life insurance, annuity, mutual fund and asset management products offered by LFS Representatives.

Some experienced new Advisers moving their practices to LFS have been offered loans based on future sales of products and services offered by LFS, including both Lincoln and non-Lincoln products and services. In the past, some loans were offered based on Lincoln Financial Group products alone. The repayment of these loans may be fully or partly waived based on reaching certain sales levels, or may be funded by additional compensation for these sales.

Because of the way products are priced and marketed, LFS Representatives may also receive higher compensation for the sales of products offered by companies not affiliated with Lincoln Financial Group.

Depending on the product and/or services purchased by a client, the client may receive additional materials which disclose important information, such as product prospectuses, applications, and disclosure brochures.

LFS has relationships with both affiliated and non-affiliated companies that provide additional revenue and marketing support to LFS as well as education and training to LFS Representatives for the sale of various mutual fund, annuity, life insurance and alternative investment products. This revenue and marketing support does not affect the compensation to any LFS Representative or manager.

LFS has agreements with certain sponsors and custodians of advisory programs in which they provide compensation and expense reimbursements to LFS in support of the training, education and marketing support required of these products. In addition, LFS may impose certain administrative costs in connection with these programs. The method, timing and amount of payments vary by program and sponsor, and may include a direct reimbursement of certain expenses, payment of a specified dollar amount to participate in certain conferences, payment of a fee or service charge for a transaction, or a payment of a percentage of assets under management. These payments may include fees in connection with securities transactions, transaction or account-based administrative or service charges, and may include payments of 12(b)-1 fees or other asset-based fees from money market funds and other mutual funds. Payments calculated as a percentage of assets under management range from 0% to 0.25%. Administrative charges, if applicable, range from 0.05% to 0.25%. Sponsors of these programs may also directly pay for certain educational and training costs of LFS Representatives, and send their employees to meetings to provide education and training on these programs. The advisory services sponsors that provide payments to LFS as described above can be found on the LFS website at [www.lfsecurities.com](http://www.lfsecurities.com)

LFS, its Representatives, and clients may also receive the benefit of certain services provided by program sponsors and custodians. These services may include performance reporting, statement creation and delivery, technology systems including online access to account information, fee liquidation, notification and payment services, marketing material and other services related to the management of investment advisory accounts. Some of these services may involve additional charges to LFS, its Representatives, or to clients, while others are packaged and available as part of an investment advisory program without itemization of the cost of each product or service.

#### **ACCOUNT REQUIREMENTS AND TYPES OF CLIENTS**

The minimum investment amount varies by the investment strategy selected, and may vary further by Sub-Manager or Strategist selected by client. Generally, the investment minimums are as follows:

- (i) \$50,000 for the CWA Choice Program
- (ii) \$100,000 for each Sub-Manager selected for the CWA Separately Managed Accounts Program
- (iii) \$250,000 for the CWA UMA Program
- (iv) \$50,000 for the CWA Mutual Fund Program
- (v) \$50,000 for each Strategist selected for the CWA Strategist Program

Actual minimum investment amounts for any investment strategy, Sub-Manager or Strategist may be higher or lower than listed above. The minimum investment requirements may be negotiable at the discretion of LFS, and at the discretion of EPS, any Sub-Manager or Strategist as applicable.

LFS generally may provide investment advice to individuals, high net worth individuals, pension and profit sharing plans, charitable organizations, corporations or other business, and state or municipal government entities. Requirements for opening and maintaining an account, such as minimum account size, are listed above in the description for each advisory program or service, if applicable.

#### **PORTFOLIO MANAGER SELECTION AND EVALUATION**

LFS's review and selection of EPS was based on EPS's ability to provide an overall set of services necessary to administer the program, which may include a variety of functions such as investment management, research, technology, and administrative support. If LFS, through its ongoing evaluation of EPS, determines that EPS is no longer able to perform these services effectively, LFS may replace EPS with another service provider or discontinue the program.

The client ultimately determines the portfolio manager for his or her account in the CWA program, whether electing the Adviser, EPS, or one or more Sub-Managers to manage the assets in the Program Account.

Not all investment managers calculate and report performance on a uniform and consistent basis, and LFS does not review or make any representations as to the accuracy of the stated performance.

#### **CLIENT INFORMATION PROVIDED TO PORTFOLIO MANAGERS**

The information gathered from the client will be shared among LFS, Adviser, EPS, and to the extent applicable, Sub-Manager(s), and will be used in formulating each of their respective recommendations and strategies in managing client assets.



The client should contact his or her Adviser promptly with any changes in client's financial situation or investment objectives, and if client wishes to modify his/her investment objectives and/or account restrictions at any time.

#### **CLIENT CONTACT WITH PORTFOLIO MANAGERS**

Under certain circumstances, the client may request direct contact with EPS, a Sub-Manager or a Strategist. However, these consultations occur at the sole discretion of EPS, or the applicable Sub-Manager or Strategist. A client may contact his or her Adviser at any time.

#### **ADDITIONAL INFORMATION**

##### **PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

LFS and its Representatives do not charge fees based on a share of capital gains or capital appreciation of client assets.

##### **METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

LFS provides financial consulting using both fundamental and technical approaches to financial planning. The financial plans provide analysis and advice in the following areas: investments, cash management, risk management, retirement planning and estate planning.

LFS Representatives perform analysis for asset management programs, which are provided to clients. This analysis relies on research reports and information provided by third parties who are contracted to provide such information.

In the financial planning process, LFS's Representatives will assist clients, through the use of approved questionnaires and software, in identifying their financial objectives. LFS Representatives will recommend asset allocation strategies made up of different categories of financial assets in order to address specific client-identified economic and tax concerns. For all asset management programs used by LFS, the specific security analysis methods, sources of information and investment strategies depend upon and are determined by the applicable third party asset management vendors or process selected by the client.

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

#### **DISCIPLINARY INFORMATION**

Below is a description of legal or disciplinary events that may be material to a client or prospective client's evaluation of LFS and its advisory business:

- On July 8, 2010, LFS signed an Administrative Consent Order with the State of Nevada Securities Division ("Division") in which it agreed to payment of a \$25,000 civil penalty plus \$1,000 in records inspection costs related to the Division's finding that the Firm had violated provisions of Chapter 90 of the Nevada Revised Statutes and Nevada Administrative Code. The Firm was cited for failing to supervise a sales representative who did not follow established policies and procedures with respect to obtaining prior compliance approval for conducting a seminar. LFS was also ordered to pay restitution for market losses to a seminar attendee who subsequently became a securities client of the Firm.
- On June 15, 2010, LFS entered into a Consent Order with the Texas State Securities Board ("Board") as a result of a finding that it had violated Section 115.10(b)(1) of the Board Rules. Between 2004 and 2006, LFS failed to require the agents of the firm to indicate clearly their role in creating a book that discussed investment related issues, and to identify the book as marketing material. In addition to a formal reprimand, LFS paid an administrative fine in the amount of \$40,000.
- On January 15, 2010, LFS entered into a Consent Order with the Vermont Department of Banking, Insurance, Securities & Health Care Administration ("Administration") as a result of a finding that it had violated 9 V.S.A. § 5402(d) by having employed individuals designated as Administrative Only Representatives ("AOR's") at a Vermont location. These individuals were not securities registered in Vermont and the Administration concluded that, in some instances, their activities brought them within the definition of "agent" as defined under Vermont law. In resolution to the matter, the Firm agreed to pay:
  - \$1,500 in back registration fees relating to the AOR's
  - \$2,000 to the Securities Investor Education and Training Fund
  - \$6,000 administrative penalty
  - \$500 in costs relating to the investigation of the matter
- On November 7, 2008, LFS signed a Consent Order with the New Hampshire Bureau of Securities Regulation and paid a \$2,500 administrative fine in resolution of a client complaint where the representative solicited and executed four mutual fund trades between March 1, 2004 and April 30, 2004 without being properly licensed in NH. In addition, the firm was ordered to pay restitution to the client of \$20,000.
- On February 16, 2011 the Financial Industry Regulatory Authority ("FINRA") notified LFS of its acceptance of a Letter of Acceptance, Waiver and Consent (the "Letter") signed and submitted to FINRA on December 21, 2010. The Letter noted that between 2002 and 2009 LFS failed to adequately protect customer records and information in the firm's client portfolio management system and allowed certain employees to access its web-based customer account system by using shared log-on credentials without

establishing adequate procedures and without controlling or monitoring who had access to the common log-on credentials. In addition, LFS failed to require security software and anti-virus protection and to audit computers owned by its registered representatives and used in connection with LFS's securities business. As a result of the foregoing, LFS violated Rule 30 of Regulation S-P, NASD Rules 3010, 2110 and FINRA Rule 2010. LFS was censured and fined \$450,000, and the fine was paid in full on February 23, 2011.

- On or about December 15, 2004, LFS (formerly known as Jefferson Pilot Securities Corporation) was fined \$125,000, censured, and ordered to review its procedures regarding the preservation of E-mail communications as required by SEC Rule 17(a)(4) and NASD Rules 3110 & 2110. The matter was resolved on March 16, 2005 with the firm agreeing to a Letter of Acceptance, Waiver, and Consent. In addition, the firm was required to review its procedures relating to the preservation of E-mail communications and certify to the NASD that had established systems and procedures designed to achieve compliance with the laws and regulations concerning the preservation of E-mail communications.
- On or about November 15, 2004, LFS (formerly known as Jefferson Pilot Securities Corporation) was fined \$125,000 and censured by NASD regarding the firm's failure to timely file Forms U4 and U5 as required by Article V, Sections (2)(C) and (3)(B) of NASD bylaws during the period January 2002 through March 2004. On November 30, 2004, the firm agreed to a Letter of Acceptance, Waiver & Consent regarding the matter. In addition, the firm agreed to conduct periodic internal audits to evaluate the effectiveness of its system for complying with the reporting requirements, and an officer of the firm will certify that such audits have occurred.
- On March 27, 2003, LFS entered into a consent order with the Commonwealth of Virginia State Corporation Commission in which it agreed to payment of a \$15,000 fine plus \$11,500 in investigation costs related to an allegation that the firm failed to adequately supervise the general securities activities of one of its former representatives.

#### **OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

LFS is a registered broker-dealer, and its investment adviser representatives are also generally registered representatives of LFS.

LFS's principal business is as a broker-dealer selling investment products and services, including stocks, bonds, mutual funds, annuities, insurance products and options. LFS and its executive officers spend the majority of their time with these business activities. Some of LFS's executive officers are also officers of The Lincoln National Life Insurance Company and Lincoln Life & Annuity Company of New York. The proportion of time spent on each of these activities cannot be readily determined.

If a client needs certain types of products or services that are not offered by LFS, LFS may refer the client to various third party entities that provide these products or services. LFS may be paid referral fees paid by these third parties. Examples of these types of products and/or services may include business valuation, foundation formation, tax strategies, and other services.

LFS is affiliated with the following companies due to common ownership by Lincoln National Corporation:

- The Lincoln National Life Insurance Company (insurance company)
- Lincoln Life & Annuity of New York (insurance company)
- LFA, Limited Liability Company (insurance agency)
- Lincoln Financial Distributors, Inc. (broker-dealer)
- Lincoln Financial Advisors Corporation (broker-dealer, investment advisor, and insurance agency)
- Lincoln Financial Investment Services Corporation (broker-dealer)
- Lincoln Investment Advisors Corporation (investment advisor)
- First Penn-Pacific Life Insurance Company
- California Fringe Benefit and Insurance Marketing Corporation (insurance agency)
- JPSC Insurance Services, Inc.
- LFD Insurance Agency, LLC (insurance agency)
- Lincoln Financial Group Trust Company, LLC (trust company)
- Lincoln Investment Management Company (investment adviser)
- Westfield Assigned Benefits Company (insurance agency)

Conflicts of interest may be created by financial incentives and/or compensation arrangements between LFS and its affiliates. These conflicts of interest and the steps taken by LFS to address them are described above in the section on "Fees and Compensation."

LFS may recommend or select other investment advisors for clients and receive compensation directly or indirectly from those advisors. This creates a material conflict of interest in that LFS and its Representatives have a financial incentive to recommend advisors based on compensation paid. These conflicts of interest and the steps taken by LFS to address them are described above in the section on "Fees and Compensation."

## **CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

LFS has adopted an Investment Advisor Code of Ethics, and all investment adviser representative and certain other individuals defined as “access persons” are required to understand and follow its provisions. Through this Code, LFS strives to ensure high standards of professional excellence and ethical conduct among its associates. The Code is aligned with Lincoln Financial Group’s long standing shared values of: Integrity, Commitment of Excellence, Responsibility, Respect, Fairness, Diversity and Employee Ownership. LFS will provide a copy of its Code of Ethics to any client or prospective client on request. If you would like a copy of LFS’s Investment Advisor Code of Ethics, please call (800) 258-3648 or send an email request to [LFSAdvisoryServices@lfg.com](mailto:LFSAdvisoryServices@lfg.com).

LFS may engage in principal transactions mainly involving debt securities. These securities may be recommended to LFS’s clients on a fully disclosed basis, and are conducted on a “riskless transaction” basis. Under these circumstances, LFS may buy or sell securities it recommends to its clients as a principal. All of this information is fully disclosed.

LFS and its Representatives may purchase securities for their own investment purposes, and in doing so may purchase securities that are also recommended to clients. This could create a conflict of interest in that LFS Representatives may have an incentive to put their own interests ahead of clients. LFS procedures require that client orders be placed ahead of orders for LFS accounts or accounts of LFS Representatives. Personal securities transactions by LFS Representatives are recorded and monitored by LFS. LFS procedures also prohibit LFS orders and orders for the benefit of LFS Representatives from inclusion in any applicable “block trades,” orders aggregated across client accounts for the purpose of seeking cost-effective execution of client orders. LFS policies require that best execution be sought for all client orders in which LFS or its Representatives are responsible for order entry. Where a conflict of interest exists, this is disclosed to the client in the client services agreement or the disclosure documents for that program.

## **BROKERAGE PRACTICES**

CWA accounts are held at Pershing with LFS serving as introducing broker-dealer, and clients must generally use Pershing or an affiliate for execution services. Sub-Managers and EPS will have the authority to effect transactions for the Program Accounts with or through another broker, dealer or bank if EPS or Sub-Manager (as applicable) believes that “best execution” of transactions may be obtained through such other broker, dealer or bank, including any broker-dealer that is affiliated with LFS, Adviser, EPS or Sub-Manager. By directing brokerage through the use of the CWA program the client may not be able to achieve most favorable execution of securities transactions, and this practice may cost clients more money.

LFS Representatives generally recommend LFS as broker-dealer for investment products, including the CWA program. However, the client is under no obligation to purchase products from LFS or the LFS Representative, or to use the CWA program for investment management services. The client pays the same fee for advisory services whether or not products are purchased from the LFS Representative. The client also pays the same price and commissions for products whether or not LFS provided a financial plan to the client.

LFS’s advisory business does not generally include blocking trades, negotiating commissions, or obtaining volume discounts. Lower commissions or better execution may be achieved elsewhere. Different commissions may be charged to different clients.

For additional information on conflicts of interest created by the recommendation of LFS as a broker-dealer, or the recommendation of certain other broker-dealers for asset management programs, including compensation arrangements between LFS and other broker-dealers, please see the section on “Fees and Compensation” above.

In the Custom Wealth Series programs, LFS serves as the broker-dealer, with either Pershing LLC or National Financial Services serving as custodian.

## **REVIEW OF ACCOUNTS**

For CWA programs managed by EPS, client accounts, portfolio transactions and securities holdings are reviewed on a continuing basis by EPS. These accounts are reviewed periodically by the Adviser and LFS although more frequent reviews may be done based on significant market or economic developments, a change in a client’s objectives or financial circumstances, or at the client’s request. LFS’s management also receives quarterly supervisory reports for some programs. These reports are reviewed by LFS and may be discussed with the LFS Representative, if applicable. When necessary, they are reviewed with the client.

Clients receive a monthly activity statement from Pershing in months when there is qualifying activity. Clients will receive transaction confirmations for each transaction that occurs in their Program Account unless the client elects to waive receipt of transaction confirmations. Year-end tax summaries including IRS Schedule D information, IRS 1099-INT and IRA 1099-DIV, if applicable are provided to clients. Clients will also receive a quarterly statement of account from EPS. Transaction confirmations and tax reports are provided by Pershing.

## **CLIENT REFERRALS AND OTHER COMPENSATION**

For a description of the economic benefits received by LFS and its Representatives from entities who are not clients, as well as conflicts of interest created by those benefits and how they are addressed, please see the section on “Fees and Compensation” above.

## **Solicitor Relationships**

## Overview

LFS may pay referral fees to solicitors based on a written agreement if allowed by SEC and state regulations. A document describing the relationship will be provided to the client at or before the client signs an advisory contract. The amount of the solicitor fee may vary based on different factors, such as the types of services performed by the solicitor. The solicitor's fee may increase the fees paid by the client. Clients are obtained primarily through the efforts of LFS's Representatives.

## Solicitor Relationship Process

The solicitor will give the client a copy of LFS's Form ADV Part 2A or appropriate disclosure brochure, and a separate disclosure letter. The disclosure letter will describe the relationship between LFS and the solicitor, and the compensation that the solicitor is being paid to refer the client to LFS. In order for the solicitor to receive the referral fees, the client must confirm in writing that they have received a copy of LFS's disclosure brochure and the disclosure letter.

## Solicitor Fees

LFS will pay the solicitor a referral fee which will come from the advisory fee charged to the client. The advisory fee may be increased due to the solicitor's relationship with LFS, but in no event will the advisory fee exceed the maximum fee permitted for the CWA program.

LFS may refer clients to Lincoln Financial Advisors Corporation (LFA) for financial planning or asset management services and may receive a portion of the fee charged to the client for these services. LFA is an affiliated investment adviser of LFS. Therefore, there may be a conflict of interest in referring clients to LFA for these services.

## CUSTODY

LFS does not generally provide custodial services for client assets. However, since clients in the CWA program will authorize LFS to deduct advisory fees from client brokerage accounts, LFS may be considered to have custody of client assets for this limited purpose.

Clients will receive account statements from the custodian that holds their accounts at least quarterly, and LFS urges clients to carefully review those custodial statements. It is important that clients compare the information on the custodial statements with reports that may be received from LFS or EPS. Clients should be aware that there may be minor variations in these reports due to calculation methods. Clients should contact their LFS Representative with any questions regarding their statements.

## INVESTMENT DISCRETION:

In the CWA Choice program, LFS generally provides investment management services on a non-discretionary basis, meaning that LFS or its IAR obtains client authorization before entering any buy or sell orders in client accounts. LFS will provide investment management services on a discretionary basis through the CWA Choice program, where client consent is not needed prior to entering buy and sell orders in an account, only when written authorization providing discretionary authority is granted to an IAR by such client. In any event, discretionary authority is limited to trading, and will not extend to money movement, including the withdrawal of funds from the client's account.

Clients that participate in the other CWA programs will grant full discretionary investment authority to EPS as further described in the client services agreement. EPS will generally limit the exercise of this authority to the following circumstances:

- For the CWA Separately Managed Account program, EPS generally will use this grant of discretion to replace investment vehicles, including Sub-Managers, when it deems such a change is necessary; to rebalance a client's account as agreed between the client and EPS; and to liquidate sufficient assets to pay the Program Fee when necessary and advisable. Where the client has elected a Model Provider, EPS will have full discretionary authority to trade the account in accordance with the Model Provider's recommendations, subject to any reasonable restrictions imposed by client. However, there may be other situations in which EPS will fully use investment discretion, such as to liquidate a position.
- For the CWA Mutual Fund program and CWA Strategist program, EPS will generally use this grant of discretion to invest in, hold and sell shares in various mutual funds and/or ETFs; to liquidate any "in kind" assets that are transferred into the program; and to liquidate sufficient assets to pay the Program Fee when necessary and advisable.
- For the CWA UMA program, EPS will generally use this grant of discretion to select Model Providers, mutual funds and/ or ETFs in its discretion, and to provide on-going management of the portfolio and periodically replace Model Providers, mutual funds and/or ETFs in its discretion; to liquidate any "in kind" assets that are transferred into the program; and to liquidate sufficient assets to pay the Program Fee when necessary and advisable.

Specific information regarding the terms of the discretionary trading authority granted to EPS and Adviser is found in the applicable client services agreement and supporting documentation that a client receives in connection with the CWA program.

## VOTING CLIENT SECURITIES

For the CWA Separately Managed Accounts Program and the CWA UMA Program, EPS or Sub-Manager, as applicable, may exercise its discretion in voting or otherwise acting on all matters for which a security holder vote, consent, election or similar action is solicited by, or with respect to, issuers of securities beneficially held as part of the Program Accounts, unless otherwise agreed with the client. The client has the right to revoke this authority at any time. For more information on the proxy voting policies of EPS or any Sub-Manager,

please refer to the Form ADV Part 2A of EPS or the respective Sub-Manager.

For the CWA Choice Program, CWA Mutual Fund Program and the CWA Strategist Program, the client shall be responsible for voting or otherwise acting on all matters for which a security holder vote, consent, election or similar action is solicited by, or with respect to, issuers of securities beneficially held as part of the Program Accounts.

LFS does not accept authority to vote client securities or proxies. Clients will receive their proxies or other solicitations directly from their custodian, unless the client has provided proxy voting authority to a third party such as an investment manager. If you have any questions regarding a particular solicitation, please contact your LFS Representative.

#### **FINANCIAL INFORMATION**

LFS does not have any financial condition that is reasonably likely to impair its ability to meet its contractual commitments to clients.



## LINCOLN FINANCIAL ADVISORS CORPORATION<sup>®</sup> PRIVACY PRACTICES NOTICE LINCOLN FINANCIAL SECURITIES CORPORATION<sup>®</sup> PRIVACY PRACTICES NOTICE

Lincoln Financial Advisors Corporation and Lincoln Financial Securities Corporation (both a part of Lincoln Financial Network or LFN) are committed to protecting your privacy. To provide the products and services you expect from a financial services leader, we must collect personal information about you. **We do not sell your personal information to third parties.** We share your personal information with third parties as necessary to provide you with the products or services you request and to administer your business with us. This Notice describes our current privacy practices. While your relationship with us continues, we will update and send our Privacy Practices Notice as required by law. Even after that relationship ends, we will continue to protect your personal information. This Notice explains our information sharing arrangement and provides information on how to contact us if you have questions regarding our privacy practices.

### INFORMATION WE MAY COLLECT AND USE

We collect personal information about you to help us identify you as our customer or our former customer; to process your requests and transactions; to offer investment or insurance services to you; to pay your claim; or to tell you about our products or services we believe you may want and use. The type of personal information we collect depends on the products or services you request and may include the following:

- **Information from you:** When you submit your application or other forms, you give us information such as your name; address; Social Security number; and your financial; health; and employment history.
- **Information about your transactions:** We keep information about your transactions with us, such as the products you buy from us; the amount you paid for those products; your account balances; and your payment history.
- **Information from outside our family of companies:** If you are purchasing insurance products, we may collect information from consumer reporting agencies such as your credit history; credit scores; and driving and employment records. With your authorization, we may also collect information, such as medical information from other individuals or businesses.
- **Information from your employer:** If your employer purchases group products from us, we may obtain information about you from your employer in order to enroll you in the plan.

### HOW WE USE YOUR PERSONAL INFORMATION

We may share your personal information within our companies and with certain service providers as allowed by law. They use this information to process transactions you have requested; provide customer service; and inform you of products or services we offer that you may find useful. Our service providers may or may not be affiliated with us. They include financial service providers (for example, third party administrators; broker-dealers; insurance agents and brokers, registered representatives; reinsurers and other financial services companies with whom we have joint marketing agreements). Our service providers also include non-financial companies and individuals (for example, consultants; vendors; and companies that perform marketing services on our behalf). Information we obtain from a report prepared by a service provider may be kept by the service provider and shared with other persons; however, we require our service providers to protect your personal information and to use or disclose it only for the work they are performing for us, or as permitted by law.

When you apply for one of our products, we may share information about your application with credit bureaus. We also may provide information to group policy owners, regulatory authorities and law enforcement officials and to others when we believe in good faith that the law requires disclosure. In the event of a sale of all or part of our businesses, we may share customer information as part of the sale. **We do not sell or share your information with outside marketers who may want to offer you their own products and services; nor do we share information we receive about you from a consumer reporting agency. You do not need to take any action for this benefit.**

## **SECURITY OF INFORMATION**

We have an important responsibility to keep your information safe. We use safeguards to protect your information from unauthorized disclosure. Our employees are authorized to access your information only when they need it to provide you with products, services, or to maintain your accounts. Employees who have access to your personal information are required to keep it confidential. Employees are trained on the importance of data privacy.

## **WHEN REGISTERED REPRESENTATIVES LEAVE LINCOLN FINANCIAL NETWORK**

We understand that the relationship you have with your registered representative is important to you. If your registered representative's affiliation with Lincoln Financial Network ends and he or she chooses to move to a different broker-dealer, or if your registered representative's relationship with LFN is terminated, your LFN registered representative may be allowed to take with him or her copies of all client and account documentation (including but not limited to: account applications; customer statements; and other pertinent forms related to your account), so your registered representative is able to continue the relationship with you and service your account through his or her new firm. LFN will also retain copies of your client and account documentation. You do not need to take action if it is your choice to allow your LFN registered representative to keep copies of your confidential information should he or she leave our firm.

If you do not want your registered representative to keep copies of your confidential information should he or she decide to end the relationship with Lincoln Financial Network in the future, you have the right to opt out. If your account with us is a joint account, we will treat the opt out request by a joint account owner as applying to all owners on the account. If you choose to opt out now; at any time in the future; or wish to withdraw your opt out request, contact us by phone at 800-248-2285. If it is your choice to opt out there will be a 30-day period before your opt out will take effect.

If you have questions about your personal information we have on file, your request should be directed to:

Lincoln Financial Network  
Attn: Privacy Reply  
One Granite Place  
Concord, NH 03301-3258

**Please include all account numbers you maintain with LFN with your correspondence.**

\*This information applies to the following Lincoln Financial Network companies:

Lincoln Financial Advisors Corporation  
Lincoln Financial Securities Corporation  
JPSC Insurance Services, Inc.  
LFA, Limited Liability Company