

# **The Lincoln Managed Assets Program ("LMAP") Wrap-Fee Disclosure Brochure**



*Form ADV, Part 2A – Appendix 1*

December, 2012

This Wrap-Fee Program Disclosure Brochure provides information about the qualifications and business practices of Lincoln Financial Advisors Corporation and its Lincoln Managed Assets Program that you should consider before becoming a client. If you have any questions about the contents of this brochure, please contact Lincoln Financial Advisors Corporation **at (800) 237-3813, write to us at 1300 South Clinton Street, Suite 150, Fort Wayne, IN 46802, send us an e-mail at [lfaria@lfg.com](mailto:lfaria@lfg.com) or via the “contact us” link on our website: [www.lfa-sagemark.com](http://www.lfa-sagemark.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.

As an SEC Registered Investment Advisor, additional information is also available about Lincoln Financial Advisors Corporation on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Please note that registration as an investment adviser does not imply a certain level of skill or training.

\*\*\*\*\*

## 2. Summary of Material Changes

\*\*\*\*\*

The following are summaries of material changes to the LMAP Form ADV Part 2A-Appendix 1 Disclosure Brochure that have occurred since the March, 2012 version that was previously provided.

IPC has introduced the Multiple Manager Strategy Portfolio (“MMSP”) services that consolidate the investment options for its Multiple Strategy Portfolio, Model Manager Portfolio and One Account Solution services. This is an expanded version of the program that offers clients more flexibility in the selection of investment strategies and asset allocation of their portfolios. The services for clients already participating in any of the investment options above will not change as a result of the consolidation. Additionally, current clients who selected individual Investment Managers to manage their accounts will not be affected by this change.

The following sections of the Disclosure Brochure have been revised to reflect these changes.

- Item 4      Services, Fees, and Compensation
- Item 5      Account Requirements And Types of Clients
- Item 6      Portfolio Manager Selection And Evaluation
- Item 9      Additional Information Subsections – Review of Client Accounts

This Brochure or any IPC Brochure may be requested by either downloading it from the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) or you may contact Independent Portfolio Consultants, Inc. (“IPC”) at 561-912-1040 or [customerservice@ipcanswers.com](mailto:customerservice@ipcanswers.com) to request an updated copy of this Brochure.

\*\*\*\*\*

### 3. TABLE OF CONTENTS

\*\*\*\*\*

<b>1. LMAP COVER PAGE .....</b>	<b>1</b>
<b>2. SUMMARY OF MATERIAL CHANGES.....</b>	<b>2</b>
<b>3. TABLE OF CONTENTS .....</b>	<b>3</b>
<b>4. SERVICES, FEES AND COMPENSATION.....</b>	<b>5</b>
INTRODUCTION.....	5
LINCOLN MANAGED ASSETS PROGRAM.....	6
LINCOLN MANAGED ASSETS PROGRAM SERVICES .....	6
<i>Separately Managed Account Portfolio Services .....</i>	<i>7</i>
<i>Multiple Manager Strategy Portfolio Services.....</i>	<i>8</i>
<i>Emerging Manager Multiple Strategy Portfolio Services.....</i>	<i>10</i>
<i>Tax-Transition Management Portfolio Services .....</i>	<i>11</i>
LINCOLN MANAGED ASSETS PROGRAM FEES .....	12
<i>LMAP SMA Annual Fee Schedules .....</i>	<i>13</i>
Equity Accounts.....	13
Balanced Accounts.....	13
Preferred Equity/Balanced Accounts (over \$1,000,000).....	14
Equity Opportunistic Accounts .....	14
Equity Tax-Transition Management Accounts .....	14
Fixed Income Accounts .....	14
Preferred Fixed Income Accounts (over \$1,000,000) .....	15
Fixed Income Plus Accounts.....	15
<i>LMAP UMA Annual Fee Schedules .....</i>	<i>15</i>
Multiple Manager Strategy Portfolio ("MMSP") Accounts .....	15
Emerging Manager MMSP Accounts .....	16
Asset Retention Incentive Program.....	16
<i>Additional Client Fees .....</i>	<i>16</i>
<i>Evaluating the Cost of the LMAP Wrap-Fee Program .....</i>	<i>17</i>
<b>5. ACCOUNT REQUIREMENTS AND TYPES OF CLIENTS.....</b>	<b>18</b>
MINIMUM ACCOUNT SIZE; ACCOUNT TERMINATION .....	18
<i>Separately Managed Accounts .....</i>	<i>18</i>
<i>Unified Managed Accounts .....</i>	<i>18</i>
TYPES OF CLIENTS .....	19
<b>6. PORTFOLIO MANAGER SELECTION AND EVALUATION .....</b>	<b>19</b>
INVESTMENT MANAGER DUE DILIGENCE.....	19
<i>Selection of Investment Managers Available in the Program .....</i>	<i>19</i>
Separately Managed Accounts.....	19
Unified Managed Accounts.....	20
Other Resources .....	20
Performance .....	20
<i>Ongoing Evaluation of Investment Managers in the Program.....</i>	<i>21</i>
INVESTMENT MANAGER SELECTION .....	22
<i>Selection of Investment Managers for Client Portfolios .....</i>	<i>22</i>
<i>Ongoing Evaluation of Investment Managers for Client Portfolios.....</i>	<i>22</i>
PERFORMANCE-BASED FEES & SIDE-BY-SIDE MANAGEMENT.....	23
INVESTMENT STRATEGIES AND RISK OF LOSS.....	23
VOTING CLIENT SECURITIES (PROXY VOTING POLICY SUMMARY) .....	28

<b>7. CLIENT INFORMATION PROVIDED TO PORTFOLIO MANAGERS.....</b>	<b>29</b>
INVESTMENT POLICIES AND INVESTMENT MANAGER COMMUNICATIONS .....	29
<b>8. CLIENT CONTACT WITH PORTFOLIO MANAGERS.....</b>	<b>30</b>
<b>9. ADDITIONAL INFORMATION.....</b>	<b>31</b>
DISCIPLINARY INFORMATION .....	31
OTHER FINANCIAL INDUSTRY ACTIVITIES & AFFILIATIONS.....	32
CODE OF ETHICS .....	33
PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS & PERSONAL	
TRADING .....	33
<i>Brokerage Executions</i> .....	34
Brokerage Transactions.....	34
REVIEW OF CLIENT ACCOUNTS.....	35
<i>Separately Managed Accounts</i> .....	35
<i>Multiple Manager Strategy Portfolio Accounts</i> .....	36
<i>Client Reporting</i> .....	36
<i>Electronic Access of Communications</i> .....	37
CLIENT REFERRALS & OTHER COMPENSATION .....	37
<i>Referral Arrangements</i> .....	37
<i>Additional Compensation to LFA and its Affiliates</i> .....	38
FINANCIAL INFORMATION .....	40

\*\*\*\*\*

## 4. Services, Fees and Compensation

\*\*\*\*\*

### INTRODUCTION

Lincoln Financial Advisors Corporation (“LFA”) is an investment advisor registered with the United States Securities and Exchange Commission (“SEC”), a broker-dealer registered with the SEC and appropriate state securities authorities, and is a member of the Financial Industry Regulatory Authority (“FINRA”). LFA was incorporated in 1968, and has been registered with the SEC as an investment advisor since 1992. As a registered investment advisor, LFA offers a wide variety of investment advisory programs and services. These services are sometimes marketed using the name Sagemark Consulting. Sagemark Consulting is a division of LFA. Investment advisory representatives of LFA, including those who use the name Sagemark Consulting (together “LFA Representatives”) assist clients in achieving their financial goals by providing personalized financial planning services and investment solutions. LFA’s principal business activity is as a securities broker-dealer, effecting transactions in securities and providing related services. LFA’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 its 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. LFA provides clients access to investment solutions, either through investment advice, securities, or other financial products that may be used to implement their financial plans and pursue their investment objectives.

LFA Representatives are registered with the appropriate regulatory authorities to provide investment advice, financial planning, and asset management programs. LFA Representatives are usually registered representatives of LFA in its capacity as a broker-dealer, and are qualified to sell certain investment and insurance products. LFA 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 LFA.

LFA provides a variety of asset management services, and sponsors other wrap fee programs in addition to the Lincoln Managed Assets Program. As of 12/31/2011, LFA managed \$7,655,460,009 of client assets on a non-discretionary basis. LFA did not manage any assets on a discretionary basis as of 12/31/2011, but may do so if written authorization is provided by a client. The disclosure brochures describing all of LFA’s investment advisory services, and all of LFA’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 LFA at 800-237-3813 or by sending us an email at [lfaria@lfg.com](mailto:lfaria@lfg.com).

## **LINCOLN MANAGED ASSETS PROGRAM**

Lincoln Managed Assets Program (“LMA” or the “Program”) is a wrap-fee program, sponsored by LFA. LFA has partnered with Independent Portfolio Consultants, Inc. (“IPC”) so that IPC may function as a consultant to LFA in performing due diligence on participating investment management providers (“Investment Managers”), and providing additional services in support of LMA. LFA’s review and selection of IPC was based on IPC’s ability to provide an overall set of services in support of LMA, including investment management, investment manager due diligence, research, technology and administrative support. If LFA, through its ongoing evaluation of IPC and LMA, determines that IPC is unable to perform these services effectively, LFA may replace IPC with another service provider or discontinue the program.

IPC has arranged with Managed Account Services, LLC (“MAS”) to act as the broker-dealer with respect to client accounts. MAS uses First Clearing, LLC (“First Clearing”) on a fully-disclosed basis for clearing and custody services for LMA accounts. LMA is designed for individuals and institutional clients who prefer to have their portfolio professionally managed in a personalized manner, and seek professional assistance in determining appropriate investment objectives, based on their investment goals, preferences and constraints. Clients in the Lincoln Managed Assets Program are able to have direct contact and discussion with the Investment Manager responsible for their account(s).

IPC is headquartered in Boca Raton, Florida, and has been registered as an investment advisor with the SEC since 2002. IPC has a history of supporting wrap-fee programs by employing a highly skilled group of experienced professionals, supported by an exceptional client services team. Individuals associated with IPC that provide these services are licensed, qualified and authorized to provide advisory services as investment adviser representatives.

LFA has arranged with IPC to provide research services and assist LFA in recommending appropriate Investment Managers, as well as to provide ongoing evaluation of the Investment Manager. IPC provides administrative support including account opening and servicing functions to LMA accounts. IPC also provides various reports, including the client’s quarterly report to assist the LFA Representative in the review of the client’s account(s).

## **LINCOLN MANAGED ASSETS PROGRAM SERVICES**

An LFA Representative will consult with the client and assist the client in determining his or her financial objectives, by taking into account the client’s unique financial circumstances, including preferences, constraints, goals, risk tolerance and tax status. Working with IPC, the LFA Representative will recommend an investment plan, assist the client in determining the appropriate amount of assets to be invested, evaluate the impact of economic and market conditions on the client’s current portfolio, and perform an assessment of the client’s current investments. After considering factors that may include the client’s investment objectives, liquidity needs, risk tolerance, time horizon and the potential impact pertaining to inflation and taxation, as well as any client preference or aversion to specific industries, the LFA

Representative, working with IPC, will present the client with a written Investment Policy Statement outlining an asset mix appropriate to the client's situation.

The LFA Representative will work with the client to select a professional investment manager(s) whose style and abilities are appropriate for the client's investment needs. The LFA Representative, working with IPC, will recommend one or more Investment Managers, which the LFA Representative believes is appropriate, to manage the client's investment account and provide investment management services. Once the client has elected to establish an investment account, he or she will select a professional manager(s) and sign an investment agreement between the client and the selected Investment Manager(s). This agreement outlines the terms by which the account is to be managed. Included in the investment management agreement is a statement of investment objectives, which outlines the client's investment objectives. If the client's financial situation or investment objectives change and the client wishes to modify the investment objectives and or account restrictions at any time, the client should notify their LFA Representative.

The Program is an advisory wrap-fee program that provides this complete range of services in a customized portfolio.

### **Separately Managed Account Portfolio Services**

The separately managed account is a privately managed investment portfolio of assets under the management of a professional investment firm. This managed account offers clients the freedom and ability to establish guidelines for the investments within the portfolio, and any decision made by the Investment Manager is based on the individual investor's goals and objectives.

Clients select an Investment Manager who then becomes responsible for day-to-day investment decisions, supported by a team of investment professionals, operations and administrative staff. Separately managed accounts ("SMAs") differ from pooled vehicles such as mutual funds in that each portfolio is unique to a single account.

With this managed account, LMAP provides the client with on-going access and communication with the Investment Manager selected to manage their portfolio. IPC's Ongoing Consulting Group works with the LFA Representative and the client to set up and coordinate client reviews of their LMAP accounts.

#### *Client Customization*

The LMAP SMA offers clients a higher level of customization that can be closely aligned with a client's specific return objectives, risk tolerance and special circumstances than could be achieved with a pooled vehicle. This high level of customization is particularly important when it comes to individual tax planning for client's investments.

With separately managed accounts, clients have a greater degree of control over these decisions, in that they are more closely attuned to the objectives and constraints set forth in the investment policy statement.

The Investment Manager selected by the client to manage the account has the responsibility and discretion to make investment decisions for the client's account based upon the client's specific goals and objectives set forth in the client's investment policy statement. The decisions can be unique at the account level and may, therefore, vary from one investor to another.

LFA assists the client in monitoring the results of their investment account(s) in relation to their particular goals and objectives stated in their Statement of Investment Policy. The client's LFA Representative and the IPC Ongoing Consulting Group will consult with the client concerning the Investment Manager(s)'s investment performance, and assist the client in making future investment management decisions, based both on account performance and upon changes in their overall financial circumstances.

## **Multiple Manager Strategy Portfolio Services**

The Multiple Manager Strategy Portfolio ("MMSP") is an investment portfolio that may use one or more investment strategies that use various equity and fixed income asset classes and investment approaches. All the investment strategies are contained in one unified managed account ("UMA") rather than having each investment strategy held in multiple separately managed individual accounts. The MMSP gives the client the ability to obtain multiple managers, affordable diversification, customization and consolidated reporting all in one account.

Each client's MMSP account is managed to replicate one or more investment strategies that are typically provided by various third party investment advisory firms ("Model Managers"). The Model Managers provide IPC with a "Model Portfolio," which is a list of securities that replicates the managers' actual investment strategy. IPC then acts as Overlay Portfolio manager for client MMSP accounts, implementing the model Managers' Model portfolio for client accounts. Each of the Model Manager's strategies selected will represent a portion of the overall client MMSP account.

### *Client Customization*

The MMSP offers clients who wish to personalize their investment portfolios more flexibility by providing the ability to customize their investment account based on the specific goals, risk tolerance and timeframe related to the assets they wish to place in that account. This structure also offers the ability to use asset allocation strategies which consider the historic rates of return of different asset classes over long periods of time. This may be useful for a client seeking to increase or reduce the account's risk or portfolio volatility.



### *IPC as Overlay Portfolio Manager*

As the Overlay Portfolio Manager, IPC has discretion over the MMSP account. IPC contracts with Model Managers who provide their investment models for the MMSP. IPC uses these models in managing a client's account. However, under certain circumstances and at the client's request, IPC may also act as a manager in an MMSP account.

IPC selects the Model Manager Models for the MMSP based upon their specialized management styles and strategies. The securities selected for the client's MMSP are chosen by the Model Manager from that particular manager's investment model or focus list. Changes in a model portfolio are based upon the Model Manager's Investment Policy, Research and/or Focus Committees' decisions.

However, client's goals, risk tolerance, timeframe and the amount of assets allocated to a model may impact the implementation of the investment process. The impact may alter the performance of the individual client account in relation to the model. The presence or absence of investment restrictions; the timing of trades and the presence of deposits and withdrawals will also affect performance.

While both cash and securities may be used to fund MMSP accounts, it is the intent of IPC that all securities so received be liquidated prior to, or simultaneous with, the purchase of securities for the account.

### *Exchange Traded Funds*

When appropriate, and requested by the client, the MMSP may use Exchanged Traded Products such as equity or fixed income Exchange Traded Funds ("ETFs"). ETFs, consisting of fixed income products can be added to an equity portfolio to create a balanced account approach, whereby the account has an allocation of both equity and fixed income. The LFA Representative, generally working in conjunction with IPC Consultants, will assist each client in the selection of the investment strategy that is appropriate for the client's investment objectives.

### *MMSP Risk*

The risk of the MMSP is that the allocation combination of investment strategies chosen by a client may not achieve their intended objective to either increase or decrease the risk or volatility of the account. Additionally, the risk associated with this MMSP strategy allocation, depending upon the size of the account, is that a balanced account with only two strategies may be limited to one large capitalization equity investment strategy. Thus, while the fixed income sector is broadly diversified through the Model Manager's use of Exchange Traded Funds (ETFs) for fixed income, the equity sector will be limited to one large capitalization growth, value or core equity strategy. Consequently, such an account with two strategies may not provide the client with the equity diversification that other investment products would provide, including various combinations of equity

mutual funds. However, a \$500,000 all equity account will provide the client with the diversification of two different equity strategies within one account.

## **Emerging Manager Multiple Strategy Portfolio Services**

Emerging Manager strategies are available in the MMSP. The Emerging Manager strategy(ies) is specifically designed to provide managed account services to those clients who seek additional equity diversification by utilizing one or more emerging manager styles or strategies in an MMSP account. The Emerging Manager is an investment strategy that uses investment models that are able to provide for additional diversified management using various asset classes and strategies provided by investment firms considered to be “Emerging Managers” (described below). For clarification, an investment model is a master investment portfolio. Client portfolios are designed to look like and attempt to replicate the master investment portfolio of the Emerging Manager’s style or strategy. However, there may be other considerations that may impact the investment process and performance. Such other consideration could include: (1) the size of the client’s account(s); (2) the presence or absence of investment restrictions; (3) the timing of trades and (4) the presence of deposits and withdrawals.

Emerging Managers are defined differently by various entities and those definitions change over time. Most definitions revolve around assets under management, performance history, employee ownership and minority ownership. The review of Emerging Managers is generally dynamic and complex and simply using a quantitative data base as a selection method may not be appropriate. For a number of reasons, qualitative insight plays a prominent role, particularly at the start.

Emerging investment firms tend to be companies where investment performance takes precedence over asset-gathering, where niche or innovative investment strategies are designed to capture unrecognized market inefficiencies. Management of emerging investment firms are generally highly motivated to succeed through ownership structures representing financial incentives as well as the psychological incentives of working within an entrepreneurial culture. Emerging investment firms frequently are still emerging precisely because they emphasize performance over asset-gathering – in fact, the very reasons why these companies offer significant potential often are the same reasons why they have not yet been widely used.

There are three main reasons that potential clients may choose to consider Emerging Managers: (1) Empirical data suggests that some small firms outperform their larger counterparts; (2) Emerging Managers may have more drive to succeed, often to the benefit of their investors; (3) The nimbleness of Emerging Managers may allow them to take advantage of market opportunities. However, there is no guarantee that by engaging an Emerging Manager that any of these reasons will actually be realized in the performance results of a client’s portfolio.

These Emerging Manager multiple diversified strategies are contained in a single custodial account, hence the name “Multiple Manager Strategy Portfolio.” The primary purpose for adding an MMSP is to provide further diversification to the client’s portfolio.

IPC uses model portfolios provided by Emerging Managers who are registered investment advisers. However, CbF Advisors, LLC (“CbFA”) will act as Sub-Adviser to IPC in the Emerging Manager MMSP investment styles and strategies. IPC has entered into a strategic alliance with CbFA. CbFA will use the services of Clearbrook Investment Consulting (“CIC”), a related company and an SEC-registered investment advisor, for Emerging Manager research and due diligence.

CIC has a 25-year history as an institutional consultant with over \$30 billion of assets under consultation. CIC has a dedicated Emerging Manager research effort. As a related company, CbFA has full and timely access to the CIC Emerging Manager research and due diligence data base. IPC, in conjunction with CbFA, will use this proprietary information to select appropriate Emerging Managers for IPC’s Emerging Manager MMSP. CbFA will negotiate the Emerging Manager sub-advisory contracts and arrange for the Emerging Manager portfolio models to be delivered to IPC. As Overlay Portfolio Manager, IPC has discretion over the Emerging Manager MMSP account(s).

While both cash and securities may be used to fund MMSP accounts, it is the intent of IPC that all securities so received be liquidated prior to, or simultaneous with, the purchase of securities for the account.

## **Tax-Transition Management Portfolio Services**

Tax-Transition Management (“TTMP”) is an investment management strategy in an MMSP designed to provide tax-efficiencies for clients who seek to minimize their capital gains when changing investment strategies or advisors. The strategy’s objective is to transition clients’ portfolios from significant, low-cost basis, or concentrated common stock positions to pre-determined, targeted, diversified portfolios of common stocks in a highly tax-sensitive and efficient manner. The speed of the transition is dependent upon the client’s annual capital gains budget. As portions of the low-cost basis stock positions are sold, the proceeds are reinvested in the common stock positions as identified in the targeted portfolio.

LFA, through IPC, assists the client in developing a Statement of Investment Policy and an asset allocation guideline, while the client sets their capital gains budget for the transition. IPC provides various investment styles using other registered investment advisers who act as Sub-Advisers to IPC. LFA, through IPC, assists the client to customize their targeted portfolio based upon the client’s risk tolerances and objectives.

IPC employs an Overlay Tax-Transition Portfolio Manager as a Sub-Adviser who monitors and coordinates the trading done within each of the investment styles to ensure that decisions are being made in the most tax-efficient manner. The Overlay Tax-Transition Portfolio Manager also monitors and estimates the tracking error between a client’s current portfolio and the customized targeted portfolio. Once the concentrated position is completely

liquidated, the client's current portfolio will match the selected Sub-Advisers' investment styles within the targeted portfolio.

IPC selects the Sub-Advisers for this product based upon their specialized management styles and strategies. The securities selected for the client's Tax-Transition Management Portfolio are chosen by the Sub-Adviser from that particular manager's investment model or focus list. All changes in a Sub-Advisers portfolio are based upon the Sub-Adviser's Investment Policy, Research and/or Focus Committees' decisions.

## **LINCOLN MANAGED ASSETS PROGRAM FEES**

LMAP is an advisory wrap-fee program offering the services of various independent managers that will manage the client's account on a discretionary basis. The fee schedule applicable to an LMAP Account is determined based on the type and size of the account as set out below. Except as otherwise noted, fees are calculated per Investment Manager, for each separately managed account, based upon an overall client relationship (i.e. total amount of assets and accounts to be managed).

All fees are negotiable based upon a number of factors including, but not limited to, the client's objective, family or other related accounts, amount of assets under management, the anticipated level of transactions, the number of Investment Managers and the investment strategy(ies) employed. The fees are billed monthly in arrears, based upon the market value of the assets under management (without reduction for any margin debit) including accrued interest, at the end of each calendar month. Fees will be automatically debited from the account in accordance with the client authorization as described in the Letter Agreement with LFA and/or the Investment Advisory Agreements with LFA and IPC.

The fees include the costs associated with consulting and advisory research and including:

- Developing a client's Statement of Investment Policy
- Assisting the client in the selection of Investment Managers and Model Managers, Styles and Strategies
- Professional investment management services
- Monitoring of Investment Managers and Model Managers, performance, reporting and review services
- Ongoing Consulting and advisory services
- Due diligence (except as noted below in Section 6, entitled "Portfolio Manager Selection and Evaluation")

The fees also include brokerage commissions on the purchase and sale of securities, if MAS acts as broker, and custody charges, if MAS' selected clearing firm is the custodian. Additional fees may be incurred for transactions executed other than through MAS or if a custodian other than MAS is used. Managed Account Services, LLC is a securities broker-dealer registered with FINRA, and is a member of the Security Investors Protection Corporation ("SIPC"). The primary business of MAS is as a securities broker-dealer.

The initial fee covers the period from the inception date through the last day of the first billing month and will be pro-rated accordingly. Thereafter, the client will be charged on a monthly basis in arrears. The monthly fee will be calculated based on the market value of the account on the last business day of the billing cycle and will become due the first business day following the month for which the fee is charged.

In the event an account does not maintain a sufficient cash or money market fund balance to cover LMAP's fee, the client may deposit additional funds (subject to certain restrictions for IRA and qualified retirement plan accounts) within five days, or MAS may, at its discretion, sell securities held in the account sufficient to cover fees.

For clients subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA") or other tax qualified accounts, the receipt of compensation and fees referred to in this Brochure are subject to the restrictions imposed by ERISA and any applicable exemption thereto.

The total fee paid by the client includes a portion for LFA, a portion for IPC, a portion to cover brokerage and custodial costs, and the fee of the Investment Manager, Model Manager and/or Emerging Manager. LFA will earn more for Blue Shores *Capital* Accounts in LMAP than the fees stated below. IPC has agreed to pay LFA 0.05% ("5 basis points") from its portion of the client's fees, in regard to Blue Shores *Capital* for client accounts opened after December 31, 2010. For example, if the client's fee is 2.25%, IPC receives 1.25% of the fee and LFA receives 1.00% of the fee. IPC then pays LFA an additional 5 basis points so that LFA's total fee is 1.05% and IPC's total fee is 1.20%. Applicable fee schedules are as follows:

## LMAP SMA Annual Fee Schedules

### *Equity Accounts*

	Market Value Of Account	Client Fee	LFA	Investment Manager	IPC
First	\$ 500,000	2.500 %	1.000 %	0.750 %	0.750 %
Next	\$ 1,500,000	2.250 %	0.900 %	0.750 %	0.600 %
Next	\$ 3,000,000	1.750 %	0.750 %	0.500 %	0.500 %
Next	\$ 5,000,000	1.500 %	0.650 %	0.500 %	0.350 %
Next	\$ 10,000,000	1.250 %	0.500 %	0.400 %	0.350 %

### *Balanced Accounts*

	Market Value Of Account	Client Fee	LFA	Investment Manager	IPC
First	\$ 500,000	2.500 %	1.200 %	0.500 %	0.800 %
Next	\$ 1,500,000	2.000 %	1.000 %	0.500 %	0.500 %
Next	\$ 8,000,000	1.500 %	0.750 %	0.400 %	0.350 %
Next	\$ 10,000,000	1.250 %	0.625 %	0.300 %	0.325 %

*Preferred Equity/Balanced Accounts (over \$1,000,000)*

	<b>Market Value Of Account</b>	<b>Client Fee</b>	<b>LFA</b>	<b>Investment Manager</b>	<b>IPC</b>
First	\$ 1,000,000	1.750 %	0.775 %	0.500 %	0.475 %
Next	\$ 1,000,000	1.650 %	0.760 %	0.500 %	0.390 %
Next	\$ 3,000,000	1.500 %	0.750 %	0.400 %	0.350 %
Next	\$ 5,000,000	1.250 %	0.580 %	0.400 %	0.270 %
Next	\$ 10,000,000	1.000 %	0.450 %	0.300 %	0.250 %

*Equity Opportunistic Accounts*

	<b>Market Value Of Account</b>	<b>Client Fee</b>	<b>LFA</b>	<b>Investment Manager</b>	<b>IPC</b>
First	\$ 1,000,000	1.750 %	0.775 %	0.550 %	0.425 %
Next	\$ 1,000,000	1.650 %	0.760 %	0.550 %	0.340 %
Next	\$ 3,000,000	1.500 %	0.750 %	0.550 %	0.200 %
Over	\$ 5,000,000	<b>Negotiable</b>			

*Equity Tax-Transition Management Accounts*

	<b>Market Value Of Account</b>	<b>Client Fee</b>	<b>LFA</b>	<b>IPC</b>
First	\$1,000,000	1.950%	0.775%	1.175%
Next	\$1,000,000	1.850%	0.760%	1.090%
Next	\$3,000,000	1.700%	0.750%	0.950%
Next	\$5,000,000	1.450%	0.580%	0.870%
Next	\$10,000,000	1.200%	0.450%	0.750%

Under certain circumstances, fixed income accounts using laddered bond portfolios and equity accounts holding qualified replacement assets are available at negotiated rates of one half the fee schedule for fixed income accounts and equity accounts, respectively.

*Fixed Income Accounts*

	<b>Market Value Of Account</b>	<b>Client Fee</b>	<b>LFA</b>	<b>Investment Manager</b>	<b>IPC</b>
First	\$ 1,000,000	1.250 %	0.400 %	0.350 %	0.500 %
Next	\$ 4,000,000	1.000 %	0.350 %	0.300 %	0.350 %
Next	\$ 5,000,000	0.750 %	0.300 %	0.250 %	0.200 %
Next	\$ 10,000,000	0.625 %	0.250 %	0.250 %	0.125 %

*Preferred Fixed Income Accounts (over \$1,000,000)*

	<b>Market Value Of Account</b>	<b>Client Fee</b>	<b>LFA</b>	<b>Investment Manager</b>	<b>IPC</b>
First	\$ 1,000,000	1.050 %	0.350 %	0.350 %	0.350 %
Next	\$ 2,000,000	1.000 %	0.350 %	0.300 %	0.350 %
Next	\$ 2,000,000	0.900 %	0.300 %	0.300 %	0.300 %
Next	\$ 5,000,000	0.800 %	0.300 %	0.250 %	0.250 %
Next	\$ 10,000,000	0.650 %	0.250 5	0.250 %	0.150 %

*Fixed Income Plus Accounts*

Fixed Income Plus Accounts are designed for clients who wish to invest most of their assets in fixed income investments, in conjunction with a smaller investment in equity securities. (The account is designed to contain not more than a 20% equity allocation at cost; however, the equity portion of the account may increase to approximately 30% of the account as a result of market appreciation.) The total fee for a Fixed Income Plus Account is determined by applying the Equity Account Fee Schedule to the equity portion and the Fixed Income Fee Schedule to the fixed income and cash equivalent portion.

**LMAP UMA Annual Fee Schedules**

*Multiple Manager Strategy Portfolio (“MMSP”) Accounts*

<b>Market Value Of Account</b>	<b>Client Fee</b>	<b>LFA</b>	<b>IPC</b>
First \$ 250,000	<b>2.250%</b>	1.000%	1.250%
Next \$ 250,000	<b>2.250%</b>	1.500%	0.750%
Thereafter	<b>1.750%</b>	1.000%	0.750%

Within the MMSP, fees are generally negotiable on a case-by-case basis. The total MMSP fee includes a portion for the Wealth Management Company and its Wealth Manager or LFA Representative, as applicable.

Fees with respect to the portion of a client’s LMAP account not invested in the Multiple Manager Strategy Portfolio will be calculated as set out previously in this Brochure (see sections applicable to those assets). Assets invested in the Multiple Manager Strategy Portfolio Accounts will **not** be considered in establishing fees applicable to those other assets. For example, a client has \$2,500,000 of investable assets and allocates \$1,500,000 to an MMSP account and \$1,000,000 to an all fixed Income separately managed account. The MMSP fee schedule would apply to the \$1,500,000 and the Fixed Income Preferred Account fee schedule above would apply to the \$1,000,000 account.



### *Emerging Manager MMSP Accounts*

<b>Market Value Of Account</b>	<b>Maximum Client Fee</b>	<b>Maximum LFA Fee</b>	<b>IPC</b>
First \$1,000,000	<b>2.000%</b>	0.800%	1.200%
Next \$1,000,000	<b>1.750%</b>	0.750%	1.000%
Over \$2,000,000	<b>Negotiable</b>		

If the Emerging Manager strategies are incorporated into a MMSP along with non-emerging manager strategies, then the Emerging Manager strategies assets will be billed separately from the other investment model strategies based upon the above fee schedule.

### *Asset Retention Incentive Program*

Once the aggregate value of the client accounts in the Program exceeds five hundred million dollars and an individual client account has been retained in the Program for a minimum of one year, IPC will pay a portion of its fees relating to the individual client account, excluding the MMSP Accounts, to LFA. This incentive does not affect the amount of fees paid by the client. IPC's portion of the fees relating to the individual client account will decrease and LFA's portion will increase by the following amounts:

<b>Market Value of Account</b>	<b>Incentive Amount</b>
\$ 0 to \$499,999	0%
\$ 500,000 to \$1,999,999	5% of IPC's Fees
\$ 2,000,000 to \$3,999,999	10% of IPC's Fees
\$ 4,000,000 and greater	15% of IPC's Fees

### **Additional Client Fees**

The fee charged for participation in the LMAP ("Program Fee") listed in this Brochure is known as a "wrap-fee." The Program Fee covers the cost of most services provided by LMAP, Investment Managers, Sub-Advisers, Model Managers and Emerging Managers including fees for program operations, MAS custodial charges and all brokerage commissions of MAS. The Program Fees do not include: (1) custodial fees for assets held outside MAS; (2) account maintenance or trustee fees charged for MAS (or their clearing agent, First Clearing) on qualified retirement plan, IRA, cash management or similar accounts; (3) transfer taxes; (4) dividend reinvestment costs; (5) odd-lot differentials; (6) foreign receives and delivers; (7) safekeeping fees or (8) any other charges imposed by law or otherwise agreed to with regard to client accounts. These fees will be charged to client accounts in addition to the Program Fees.

As with most wrap-fees, the Program Fee does not cover the management, distribution and other fees and expenses incurred by mutual funds, money market funds, unit trusts, exchange-traded products or closed-end funds held in a client's account. These fees are



described in the prospectus of each respective investment product and are paid to the fund's investment advisers and other service providers, but ultimately are borne by all shareholders.

Neither does the Program Fee cover debit balances with MAS, any other custodian fees, nor margin interest on such margin debit balances. To the extent that margin is used, fees will be calculated on the total market value of the account without the reduction of any debit balance. Trades in securities that customarily trade in "dealer markets," such as fixed income securities, may be placed through broker-dealers other than MAS, and, accordingly, the net purchase or sale prices reflected on client confirmations of such trades may reflect commissions or dealer "markups" or "markdowns" charged and "spreads" earned by such other broker-dealers. This is also true when Investment Managers select broker-dealers other than MAS for some, or all, of their trade executions.

IPC and the client agree that MAS may withhold any tax to the extent required by law, and may remit such taxes to the appropriate governmental authority. Additionally, the cash that is in the client's Account awaiting investment may be placed in money market funds with management expenses and distribution fees which are paid under distribution plans adopted by the funds pursuant to Rule 12b-1 under the Investment Company Act of 1940. To the extent consistent with ERISA, MAS may receive all or a portion of those distribution fees from the funds.

## **Evaluating the Cost of the LMAP Wrap-Fee Program**

Portfolio management services, if purchased separately, may cost more or less than if paid for on a wrap-fee basis as described in this Brochure. Similarly, the compensation received by the LFA Representative recommending the services may be more or less than they would have received had the client participated in another program or paid separately for investment advice, brokerage services, custodial and other services. Therefore, LFA and LFA Representatives may have a possible financial incentive to recommend the wrap-fee program over other programs or services.

However, in evaluating a wrap-fee arrangement to determine if the wrap-fee charged is more or less than the aggregate cost of such services, if they were to be provided separately, a client should recognize the following. The brokerage transactions are made "net" of commissions (i.e., without commissions) and a portion of the wrap-fee is generally considered as being in lieu of commissions. Additionally, the client should consider the level of activity (trading volume or frequency) in a client account, the value of custodial and other brokerage services, the associated cost of trading, the advisory services and consulting services provided under this arrangement, including professional account management services.

\*\*\*\*\*

## **5. Account Requirements and Types of Clients**

\*\*\*\*\*

### **MINIMUM ACCOUNT SIZE; ACCOUNT TERMINATION**

#### **Separately Managed Accounts**

Generally, the minimum dollar relationship size for a separately managed account for each manager within LMAP is \$1,000,000. The maximum number of individual accounts permitted in a \$1,000,000 relationship is three. The minimum account size is \$250,000 within a relationship.

#### **Unified Managed Accounts**

The MMSP minimum account size is \$200,000. However, within the MMSP account, the average minimum investment per style or strategy is also \$200,000. For example, a client may have selected two investment styles within an MMSP, one style with \$400,000 while the other style is invested with \$100,000, totaling \$500,000. The two investments meet the average minimum investment requirement of \$200,000.

The Emerging Manager MMSP minimum account size is \$500,000. However, within the Emerging Manager MMSP account the minimum investment per style or strategy is \$250,000. The maximum number of styles or strategies permitted within the Emerging Manager MMSP is four (4). Additionally, the Emerging Manager MMSP is not a stand-alone product, but rather a diversifier to clients who have at least \$1,000,000 of current equity holdings, exclusive of equities within the Emerging Manager MMSP. Current equity holdings considered may, or may not, be under IPC consultation and/or the introducing LFA Representative's direction.

The minimum account size for the Tax-Transition Management Portfolio is \$2,000,000.

The minimum and maximum account constraints above may be waived at LFA's and IPC's discretion. Although LFA's and IPC's general business practice is not to terminate accounts based on reduction in account value, LFA and IPC reserve the right to terminate an account that drops below the required minimum size.

Either LFA or the client may terminate the management agreement(s) upon thirty (30) days' prior written notice. In addition, the client has the right to terminate the agreement(s) at no cost (excluding market fluctuations or possible tax ramifications in event of a liquidation), upon written notice to LFA, any time within five (5) business days after the effective date in which the client signed the agreement(s). If participation in a wrap-fee program is

terminated by either LFA or the client, a pro-rata fee from the date of termination through the end of the previous billing period will be billed.

## **TYPES OF CLIENTS**

Clients may include, but are not limited to, individuals, pension and profit sharing plans, trusts, estates, charitable or non-profit organizations, corporations, municipalities and Wealth Management Companies. Tax-qualified, pension and profit sharing plans or other retirement vehicles subject to ERISA or the Internal Revenue Code of 1986, as amended are subject to special rules.

\*\*\*\*\*

## **6. Portfolio Manager Selection and Evaluation**

\*\*\*\*\*

### **INVESTMENT MANAGER DUE DILIGENCE**

#### **Selection of Investment Managers Available in the Program**

##### *Separately Managed Accounts*

LFA has arranged with IPC to provide research services and assist LFA in recommending appropriate Investment Managers, as well as to provide ongoing evaluation of Investment Managers.

The separately managed account (“SMA”) Investment Managers available in LMAP are chosen by IPC through a detailed assessment of the Investment Manager’s strategy, investment philosophy, style, methodology and technical procedures. The program uses Investment Managers with varying investment styles and geographic locations. The Investment Managers chosen for LMAP generally possess or exhibit:

- Specifically stated goals
- Identifiable and consistent investment strategies
- A proven track record
- An appropriate level of assets under management
- Upon acceptance to LMAP, claim compliance to the Global Investment Performance Standards\* (“GIPS®”)

\*The Global Investment Performance Standards (“GIPS®”) are a set of standardized, industry-wide ethical principles that provide investment firms with guidance on how to calculate and report their investment results to prospective clients. The GIPS® standards are voluntary and are based on the fundamental principles of full disclosure and fair representation of investment performance results. Claiming compliance with the GIPS® standards demonstrates a firm-wide

commitment to ethical best practices and that the firm employs strong internal control processes. The GIPS® Executive Committee promotes the adoption and implementation of GIPS®, believing that global standardization of investment performance reporting gives investors around the world the additional transparency they need to compare and evaluate investment managers.

After IPC determines that the above parameters have been satisfied, IPC's review continues. This review which may include, but is not limited to, the development of a company profile, analysis of the organization and its procedures and an assessment of the firm's adherence with regard to some of the general requirements and disclosures of the Advisers Act. An evaluation of the following may also be completed: (1) the company's compliance with industry standards; (2) operations; (3) marketing and client support services; (4) growth characteristics and (5) regulatory/compliance history.

LMAP's equity Investment Managers' investment strengths and styles fall within the broadly defined categories of growth, core, value and yield/value; however, a commitment to preservation of capital, liquidity and investment quality is key to each. Fixed income management is based on investing in a diversified selection of high quality bonds that provide satisfactory levels of income. Tax considerations are important, and Investment Managers are used in both taxable and tax-exempt markets.

### *Unified Managed Accounts*

The investment model strategies used in the MMSP are provided by Model Managers. Due diligence is conducted on the Model Managers, except for Blue Shores *Capital*, a division of IPC. The Models are chosen by IPC through a detailed assessment of the Model Manager's strategy's investment philosophy, style, methodology and technical procedures. While Model Managers are not required to claim compliance to the Global Investment Performance Standards ("GIPS®"), most do claim compliance to the GIPS® standards. The program uses Model Managers with varying investment styles and geographic locations.

IPC's due diligence effort with respect to the Emerging Managers is strictly confined to IPC performing due diligence on CIC's Emerging Manager due diligence process.

### *Other Resources*

Other resources that may be used to identify and monitor Investment Managers and investment model strategies include database services, Form ADV, other disclosure documents, detailed questionnaires completed by each Investment Manager, Model Manager Firm, and on-site visits to the SMA Investment Managers.

### *Performance*

IPC's review of the Investment Managers and the investment model strategy (collectively, "Investment Firms") performance record is an important component of the

due diligence process. IPC conducts performance reviews to determine (1) the methodology used in calculating performance, (2) the standards that are being applied and (3) the methods by which the performance composites that are used in the program are constructed. Generally, Investment Firms indicate that performance is calculated and presented in conformity with the Global Investment Performance Standards. However, not all Investment Firms calculate and report performance in a uniform and consistent basis. Not all of the Investment Firms receive a third party audit of their GIPS® Compliance. Inquiries are made by IPC into the methodology used in order to gain a comfortable understanding that the composite performance of the style for which IPC engaged the Investment Firm is calculated in a prudent manner and in compliance with applicable rules and regulations. While IPC reasonably believes such performance numbers are accurate, IPC does not independently verify nor attest to the stated performance of any Investment Firm.

The MMSP and Tax-Transition management services may or may not include the due diligence specific to a performance composite as it relates to a management style. This may be the result of some Model Managers contracting with various intermediate investment firms (“contracted firms”) to provide their investment model. Additionally, the Model Manager may not have many, if any, individual clients of their own. Having their own clients is a requirement to create their own performance composite (performance track record). Currently, per industry regulations, such Model Managers are not permitted to show other (contracted firm) clients as their clients.

## **Ongoing Evaluation of Investment Managers in the Program**

Ongoing Investment Manager due diligence reviews are also a part of IPC’s services within the Program. The extent of the review is determined by, among other things, the length of time the Investment Manager has been in LMAP and changes in Investment Manager’s personnel or processes. Also, information is obtained from each Investment Manager concerning specific composite performance results for each quarter. In addition, periodic visits are made to each of the management companies to review the firm and update information.

IPC may decide the Investment Manager is no longer appropriate for the Program for various reasons; including, but not limited to: (1) deviation from its stated style and philosophy, (2) performance that varies significantly from its stated benchmark over a market cycle, (3) the loss of key firm personnel, (4) the development of material regulatory problems or compliance issues, or (5) failure to claim compliance with the Global Investment Performance Standards (GIPS®), except as noted above for the MMSP. In such cases, the LFA Representative, in consultation with IPC, or IPC, through communication with the LFA Representative, may recommend that the client select a different Investment Manager or Model Manager.

An Investment Manager will not be recommended for termination from the program solely for having short-term performance that is sub-par in relation to market performance if they

have maintained their stated investment style and philosophy, even if such strategy is currently not popular.

## **INVESTMENT MANAGER SELECTION**

### **Selection of Investment Managers for Client Portfolios**

The LFA Representative, working with independent consultants from IPC, will recommend an individual portfolio strategy. Together, they assist each client in the selection of one or more of the available Investment Managers and Model Managers, as well as the appropriate styles/strategies that best meet the client's investment objectives. Recommendations are based upon information gathered while developing an investment policy for the client. Typically, the following are reviewed: the client's investment objectives and goals, net worth, current income, future income needs, liquidity needs, risk tolerances, tax considerations, current investment structure and other specific needs if communicated by the client. An assessment is made based upon economic and market conditions in relation to the information reviewed above. A recommendation as to the client's appropriate Statement of Investment Policy is developed from the assessment.

To assist in the selection of Investment Managers and Model Managers, IPC makes available to prospective clients and their LFA Representatives Investment Profiles and other information such as performance information. The investment descriptions, performance, and other information are based on data provided by or received from the Investment Managers and Model Managers. Additionally, IPC makes available investment profiles and performance information, if any, on the Emerging Managers participating in the Emerging Manager MMSP. The investment descriptions, performance and other information are based on data received from CbFA, CIC and the Emerging Manager.

While IPC reasonably believes this information to be accurate, IPC does not independently verify or attest to any Investment Manager's, Model Manager's or Emerging Manager's performance. Additionally, IPC does require Investment Managers, but not the Model Managers or Emerging Managers participating in the MMSP, to present their performance data in conformity with the Global Investment Performance Standards (GIPS®). Performance information may not be calculated on a uniform and consistent basis.

### **Ongoing Evaluation of Investment Managers for Client Portfolios**

Performance for each account in LMAP is calculated and reported to the client by IPC in conformance with industry standards that IPC believes are reasonable. Discrepancies between account performance and Investment Manager, Model Manager or Emerging Manager composite performance may occur as a result of an account's individual investment guidelines and/or restrictions. The performance of client account(s) may deviate from the Investment Manager's, Model Managers or Emerging Manager's composite performance for the accounts it manages in the same style because of the size of the client's account(s), the presence or absence of investment restrictions, the timing of trades and the presence or absence of cash deposits and withdrawals.

The LFA Representative along with IPC may believe the Investment Manager, Model Manager or Emerging Manager may no longer be appropriate for the client for various reasons; including, but not limited to:

- the results based upon IPC's Ongoing Evaluation of Investment Managers and Model Managers in LMAP (as described above in that section) where the Investment Manager would be terminated in LMAP or as recommended by CbFA for an Emerging Manager,
- the Investment Manager's or Model Manager's deviation from its stated style and philosophy within a client's account,
- Investment Manager continuously deviates from the investment mandate in the client's Statement of Investment Policy, unless client authorizes such changes,
- performance that varies significantly from the client's stated benchmark over a market cycle,
- the development of material regulatory problems or compliance issues, or
- change(s) in client circumstances

In such cases, the LFA Representative in consultation with IPC, or IPC through communication with the LFA Representative, may recommend that the client select a different Investment Manager.

If a client believes the Investment Manager or Model Manager they have chosen is no longer meeting their investment needs and objectives, and decides to change such Managers, IPC's Ongoing Consulting Group will work the LFA Representative and the client to establish an updated Statement of Investment Policy and recommend a new Investment Manager or Model Manager. However, the client should be aware that a new Investment Manager or Model Manager might not accept all or any of the securities acquired by the former Investment Manager or Model Manager; therefore, liquidation of the portfolio may result in tax consequences for the client.

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

Neither IPC nor LFA charge advisory fees on a share of the capital appreciation of the assets in a client's account (so called performance-based fees). The advisory fee compensation is charged only as described above in Section 4. Services, Fees and Compensation.

## **INVESTMENT STRATEGIES AND RISK OF LOSS**

Risk may be defined as the chance that an investment's or investment strategy's actual return will be different than expected. Risk includes the possibility of losing some or all of the original investment. A fundamental idea in finance is the relationship between risk and return. The greater the amount of risk that an investor is willing to take on, the greater the potential return. The reason for this is that investors need to be compensated for taking on additional risk.



**Market risk** is defined as the risk of loss arising from adverse changes in market rates and prices, such as interest rates, foreign currency exchange rates, commodity prices, and other relevant market rate or price changes (e.g., equity prices).

There can be no assurance that any investment, investment strategy or the investment asset allocation selected will be profitable or successful in achieving its investment objectives. Clients should understand the primary risk of investing in securities involves a loss of capital and should be prepared to bear such a loss. Investment in securities comes with inherent risks in exchange for a return on that investment as described above. In general, an investor may lose a portion of their principal and experience volatility in the value of that principal over time for various reasons as outlined below. This list is representative of many risks and is not necessarily a complete indication of all the risks a client may assume.

### ***1. Fixed Income Securities (Bonds)***

Fixed income securities are debt obligations of the issuer. The market value (price) of those obligations can vary over time for various reasons such as those listed below:

- a. **Fixed Income Securities:** An investment strategy that invests in fixed income securities includes corporate bonds, government bonds, municipal bonds, other debt instruments, Exchange-Traded Funds and mutual funds that invest in these securities. Issuers generally pay a fixed, variable or floating interest rate and must also repay the amount borrowed at maturity. Some debt instruments, such as zero-coupon bonds, do not pay current interest, but are sold at a discount from their face value. Prices of fixed income securities generally decline when interest rates rise and rise when interest rates fall.

Investment strategies that invest in U.S. Government securities include securities issued or guaranteed by the U.S. Treasury; issued by a U.S. Government agency; or issued by a Government-Sponsored Enterprise (GSE). U.S. Treasury securities include direct obligations of the U.S. Treasury (i.e., Treasury bills, notes and bonds). U.S. Government agency bonds are backed by the full faith and credit of the U.S. Government or guaranteed by the U.S. Treasury (such as securities of the Government National Mortgage Association (GNMA or Ginnie Mae)). GSE bonds are issued by certain federally-chartered but privately-owned corporations, but are neither direct obligations of, nor backed by the full faith and credit of, the U.S. Government. GSE bonds include: bonds issued by Federal Home Loan Banks (FHLB), Federal Farm Credit Banks, Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac) and the Federal National Mortgage Association (FNMA or Fannie Mae).

- b. **Duration Risk:** Duration is a measure of sensitivity of the change in market value to a given change in interest rates over time. Longer duration bonds, which typically have longer maturities, have more sensitivity to interest rate changes than short duration bonds. Additionally, longer-term debt and zero-coupon bonds are more sensitive to interest rate changes than debt instruments with shorter maturities.



- c. **Credit Risk:** Fixed income securities are also subject to credit risk, which is the chance that an issuer will fail to pay interest and/or principal on time. Many fixed income securities receive credit ratings from Nationally Recognized Statistical Rating Organizations (NRSROs). These NRSROs assign ratings to securities by assessing the likelihood of issuer default. Changes in the credit strength of an issuer may reduce the credit rating of its debt investments and may affect their value. High-quality debt instruments are rated at least AA or its equivalent by any NRSRO or are unrated debt instruments of equivalent quality. Issuers of high-grade debt instruments are considered to have a very strong capacity to pay principal and interest. Investment-grade debt instruments are rated at least Baa or its equivalent by any NRSRO or are unrated debt instruments of equivalent quality. Baa-rated securities are considered to have adequate capacity to pay principal and interest, although they also have speculative characteristics. Lower-rated debt securities tend to pay higher interest and are more likely to be adversely affected by changes in economic conditions than higher-rated debt securities.

An issuer suffering an adverse change in its financial condition could cause a lowering of the credit quality of a security, leading to greater price volatility of the security. A lowering of the credit rating of a security may also offset the security's liquidity, making it more difficult to sell. Investment strategies investing in lower quality debt securities, although generally having a higher yield, are more susceptible to these problems and their value may be more volatile.

**Non-Investment Grade Debt:** Credit risk is more pronounced for investments in fixed-income securities that are rated below Investment Grade or which are of comparable quality. The risk of default may be greater and the market for these securities may be less active, making it more difficult to sell the securities at reasonable prices, and also making valuation of the securities more difficult.

## 2. *Equity Securities (Stocks)*

Stocks generally represent an ownership share in a company. The market value (price) of those ownership shares fluctuate over time.

- a. **Equity Securities Risk:** Equity securities include common stocks, preferred stocks, convertible securities, mutual funds and Exchange-Traded Funds that invest in these securities. Equity markets can be volatile. Stock prices rise and fall based on changes in an individual company's financial condition and overall market conditions. Stock prices can decline significantly in response to adverse market conditions, company-specific events, and other domestic and international political and economic developments.
- b. **Loss of Capital:** An owner of stock can lose some or all of their investment.

- c. **Risk Related to Company Size:** Investment strategies that include investing in mid, small and micro capitalization companies generally involves greater risks than investment strategies investing in larger, more established companies, and possibly have a higher probability of experiencing a loss of principal in exchange for potentially higher growth. The market may value companies according to size or market capitalization rather than financial performance. As a result, if mid-cap, small-cap or micro-cap investing is out of favor, these holdings may decline in price, even though their fundamentals are sound. They may be more difficult to buy and sell, subject to greater business risks and more sensitive to market changes than larger capitalization securities. However, the pattern of their volatility may be different than those of larger stocks; and, therefore, may have diversification benefits, possibly reducing the overall portfolio volatility.
- d. **Foreign Securities Risk:** Investments in foreign securities involve certain risks that differ from the risks of investing in domestic securities. Adverse political, economic, social or other conditions in a foreign country may make the securities of that country difficult or impossible to sell. It is more difficult to obtain reliable information about some foreign securities. The costs of investing in some foreign markets may be higher than investing in domestic markets.
- However, some of this investment risk may be reduced by investing in foreign securities typically through American Depository Receipts (“ADRs”). ADRs are certificates deposited with a U.S. bank that represent the right to own a foreign security. Since ADRs are traded in U.S. markets and the issuers are subject to the same auditing, accounting and financial reporting standards as domestic securities, owning ADRs has advantages over owning other foreign securities.
  - Other risks an investor should be aware of when selecting an investment strategy that invests in foreign or international securities are:
    - i. **Currency Risk** – the risk that the U.S. Dollar’s exchange rate versus other currencies may change, thus increasing or decreasing the value of the stock once exchanged back into U.S. Dollars.
    - ii. **Political or Sovereign Risk** – Countries outside the U.S. have different legal, economic and political structures that can affect the value of investments in those countries.
    - iii. **Emerging Markets:** Investment strategies that invest in emerging international markets may experience additional risks beyond those listed above. Emerging markets may have less developed legal, economic and political structures that are in the process of emerging, and, therefore, may experience additional volatility beyond that of more economically developed countries.

Economies in Emerging Markets generally are heavily dependent upon international trade and, accordingly, have been, and may continue to be, affected adversely by trade barriers, exchange controls, managed adjustments in relative currency values and other protectionist measures imposed or negotiated by the countries with which they trade. These economies also have been, and may continue to be, affected adversely by economic conditions in the countries in which they trade. Because of the special risks associated with investing in Emerging Markets, investments in such securities should be considered speculative. Investors in such strategies are advised to consider carefully the special risks of investing in emerging market securities.

The risk also exists that an emergency situation may arise in one or more developing markets, as a result of which trading of securities may cease or may be substantially curtailed and prices for an investment strategy's securities in such markets may not be readily available. Investors should note that changes in the political climate in Emerging Markets may result in significant shifts in the attitude to the taxation of foreign investors. Such changes may result in changes to legislation, the interpretation of legislation, or the granting to foreign investors the benefit of tax exemptions or international tax treaties. The effect of such changes can be retrospective and can (if they occur) have an adverse impact on the investment return of the investment strategy.

### 3. *REITs*

- a. **REITs:** Real estate investment trusts, known as REITs, are entities that invest in different kinds of real estate or real estate related assets, including shopping centers, office buildings, hotels, and mortgages secured by real estate. There are basically three types of REITs:
- Equity REITs, the most common type of REIT, invest in or own real estate and potentially make money for investors from rents they collect as well as from price appreciation;
  - Mortgage REITs lend money to owners and developers or invest in financial instruments secured by mortgages on real estate; and
  - Hybrid REITs are a combination of equity and mortgage REITs.

The Internal Revenue Code lists the conditions a company must meet to qualify as a REIT. For example, the company must pay 90% of its taxable income to shareholders every year. It must also invest at least 75% of its total assets in real estate and generate 75% or more of its gross income from investments in, or mortgages on, real property.

Investing in real estate and real estate investment trusts (REITs) involve special risks, such as: limited liquidity, changes in tax laws, tenant turnover or defaults, competition, casualty losses and use of leverage. Real estate values may fluctuate based on economic and other factors. An investment in real estate or REITs may not be suitable for all investors, and there are no assurances that the investment objectives of any real estate program or strategy will be attained.

#### **4. *Exchange-Traded Products***

- a. **Exchange-Traded Products (“ETPs”)** is a type of security that is derivatively-priced and which trades intra-day on a national securities exchange. Derivatively-priced ETPs means the value is derived from other investment instruments such as a commodity, currency, share price or interest rate. Generally, Exchange-Traded Products are benchmarked to stocks, commodities, indices or they can be actively managed funds. Exchange-Traded Products include Exchange-Traded Funds (“ETFs”), Exchange-Traded Vehicles (“ETVs”), Exchange Traded Notes (“ETNs”) and certificates.
- b. **Exchange-Traded Funds (“ETFs”) Risk:** ETFs are open-end investment companies, unit investment trusts or depository receipts that may hold portfolios of bonds, stocks, commodities and/or currencies that are commonly designed, before expenses, to closely track the performance and/or yield of (i) a specific index, (ii) a basket of securities, commodities or currencies, or (iii) a particular commodity or currency. The types of indices sought to be replicated by ETFs most often include domestic equity indices, fixed income indices, sector indices and foreign or international indices. ETF shares are traded on exchanges and are traded and priced throughout the trading day. ETFs permit an investor to purchase a selling interest in a portfolio of stocks throughout the trading day. Because ETFs trade on an exchange, they may not trade at Net Asset Value (“NAV”), which is the value of the underlying securities after expenses. Sometimes, the prices of ETFs may vary significantly from the NAVs of the ETFs’ underlying securities. Additionally, if an investor decides to redeem ETF shares rather than selling them on a secondary market, the investor may receive the underlying securities which must be sold in order to obtain cash.

Also, ETFs consisting of bonds and bond funds will generally decrease in value as interest rates rise. ETFs and Exchange-Traded Notes (“ETNs”), particularly those consisting of commodities exhibit their own unique potential risk as these markets have historically been extremely volatile. Inverse ETF funds should lose money when their benchmark indexes rise – a result that is opposite from traditional mutual funds. Inverse ETF funds also entail certain risks, including inverse correlation, leverage, market price variance and short sales risks.

### **VOTING CLIENT SECURITIES (PROXY VOTING POLICY SUMMARY)**

LFA does not accept authorization to receive or vote proxies on behalf of clients, and does not permit LFA Representatives to do so. However, clients in the Program will generally provide

authorization to IPC and/or Investment Managers to receive and vote proxies on the client's behalf, unless the client elects to retain those rights.

Within the MMSP, IPC, as a matter of policy and as a fiduciary to our clients, has responsibility for voting proxies consistent with the best economic interests of the clients. IPC's policy and practice includes the implementation of a Proxy Voting Service for corporate actions and client proxies. Clients may retain the right to vote any proxies or take action relating to specified securities held in the Account provided the client gives timely, written prior notice to IPC. Clients are provided the option to vote their proxies in the Investment Management Agreements and Investment Advisory Agreements. IPC makes the information available to clients about the voting of proxies for their portfolio securities upon request. A copy of IPC's policy and voting information may be obtained by writing to: Independent Portfolio Consultants, Inc., Attention: Compliance, 5002 T-Rex Avenue, Suite 225, Boca Raton, FL 33431.

\*\*\*\*\*

## **7. Client Information Provided to Portfolio Managers**

\*\*\*\*\*

### **INVESTMENT POLICIES AND INVESTMENT MANAGER COMMUNICATIONS**

For each account, an investment management agreement is signed between the client and the Investment Manager or IPC as the Overlay Portfolio Manager. This agreement outlines the terms by which the client's account is to be managed. Clients also complete an Investor Profile, along with the client's Statement of Investment Policy. This includes such information as: the purpose of the account, the client's primary investment objective, tolerance for risk, liquidity needs, age, occupation, income, net worth and other special considerations that would impact how the client desires the account to be managed. This information is passed on to the Investment Manager(s) selected by the client. However, the MMSP accounts are managed by IPC and no information is provided to the Model Manager(s) or Sub-Adviser(s).

If a client's financial situation or investment objectives change and a client wants to modify their investment objectives and or account restrictions at any time, the client should notify the LFA Representative. On a quarterly basis, the client will be reminded to provide the LFA Representative with any information regarding significant changes to the client's financial condition and other information that may change the investment objectives. IPC will communicate this to the client's Investment Manager(s) or Overlay Portfolio Manager. This information typically requires the completion of a new Investor Profile and may require an update to the client's Statement of Investment Policy which if changed will be provided to the Investment Manager.

The client will also receive a quarterly performance report, which the client can review with the LFA Representative as often as is determined to be necessary, but at least annually. This report can be used to assist the client in monitoring the results of the client's investment account in relation to their particular goals and objectives stated in the Statement of Investment Policy. The

LFA Representative will consult with the client concerning the Investment Manager(s)'s investment performance, and assist the client in making future investment management decisions, based both on account performance and upon changes in the client's overall financial circumstances. IPC's Ongoing Consulting Group works with the LFA Representative to set up and coordinate client reviews of their LMAP accounts. If deemed appropriate, the LFA Representative may recommend that the client select a new Investment Manager or Model Manager strategy at no additional cost.

LMAP also provides Investment Managers but not Model Managers with electronic access to client portfolio holdings on a regular basis. Investment Managers may access client portfolio statements that are balanced and reconciled monthly. Additionally, the electronic access enables the Investment Manager to view client accounts daily and includes a list of the client's holdings, a cash ledger of activity in the account for the current month, as well as a performance report for the client's portfolio. Also, LMAP provides the Investment Manager with access to an electronic copy of the client's quarterly portfolio report and the personalized LMAP consulting letter as described below in Section 9.

\*\*\*\*\*

## **8. Client Contact with Portfolio Managers**

\*\*\*\*\*

If the client chooses, he or she may meet with their Investment Manager directly to review the account objectives and performance. The LFA Representative, through the IPC Ongoing Consulting Group, coordinates the conferences or meetings with their Investment Manager(s). The Investment Manager is the person who is making the investment decisions pertaining to the client's account on a day-to-day basis. Clients may communicate directly with their Investment Manager(s), consistent with the reasonable constraints of the Investment Manager's business.

However, the MMSP services described above in Section 4 do not provide the client with the following services:

- direct contact with the Sub-Adviser, Model Manager or Emerging Manager
- an extensive amount of individual portfolio customization, in-depth, coordinated tax planning or
- the ability to consider previously existing holdings

For these accounts, the client's LFA Representative and IPC Consultant will meet or conference with the client, at the client's request, to review their account objectives and performance. They will also work with the client to develop their objectives and investment strategies. Additionally, client's input is primarily limited to decisions about: the investment strategy(ies) selected, asset allocation, target amount of cash equivalents in the investment policy, and the individual security and any other reasonable restrictions on the account. While an initial client presentation, via a telephone conference call, may be provided by a specific Model Manager, ongoing client consultation will be provided primarily by an IPC Consultant and the LFA Representative.



\*\*\*\*\*

## 9. Additional Information

\*\*\*\*\*

### **DISCIPLINARY INFORMATION**

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

- On March 16, 2007, the Rhode Island Securities Department entered into a Consent Agreement with LFA. LFA employed two investment adviser representatives from October 2005 to June 2006 who regularly met with clients and provided investment advisory services at an office location in Rhode Island. The representatives were not properly licensed or exempt from licensing in the state of Rhode Island. The Securities Department took the position that this activity constituted conduct in violation of Section 7-11-203 of RIUSA and the rules promulgated thereunder. On June 24, 2006 applications for licensure for the representatives were submitted to Rhode Island and became effective on June 25, 2006. LFA paid an administrative penalty in the amount of \$5,000.
- On October 9, 2006, LFA entered into a Consent Agreement with the North Dakota Securities Department and paid a civil penalty of \$4,000. In March 2001, LFA, through one of its agents, conducted four securities transactions in the state when the agent was not registered in the state. North Dakota took the position that LFA was in violation of N.D.C.C., Section 10-04-10(2).
- On September 30, 2003, the Nevada Securities Division issued a Letter of Acceptance, Waiver and Consent ("AWC") to LFA for failure to comply with NRS 90.360.2, 90.392.1 and 90.310. A Registered Representative of LFA began conducting business from her residence in Nevada on or about April, 1996; however, LFA did not register the address as a branch in Nevada until March 13, 2003. LFA signed the AWC on October 17, 2003, agreeing to properly license all branch offices in Nevada and to properly withdraw the registrations when branches closed. LFA paid a civil penalty in the amount of \$5,000 on October 20, 2003.
- On February 16, 2011 the Financial Industry Regulatory Authority ("FINRA") notified LFA of its acceptance of a Letter of Acceptance, Waiver and Consent (the "Letter") signed and submitted to FINRA by LFA on December 21, 2010. The Letter noted that between 2007 and 2009 LFA 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. As a result of the foregoing, LFA violated Rule 30 of Regulation S-P, NASD Rules 3010, 2110 and FINRA Rule 2010. LFA was censured and fined \$150,000, and the fine was paid in full on February 23, 2011.

- On August 16, 2005 the National Association of Securities Dealers (“NASD”) notified LFA of its acceptance of a Letter of Acceptance, Waiver and Consent (the “Letter”) signed and submitted to the NASD by LFA on August 5, 2005. The Letter noted the following regarding NASD Rules 2110 and 2830(K): LFA, in connection with an agreement between mutual fund complexes and LFA’s clearing firms, received from one or both of its clearing firms, directed brokerage commission payments that involved the use of trading commissions to generate payments for participation in LFA’s preferred partner program. LFA was censured and fined \$950,000. The Fine was paid in full on August 29, 2005.
- On July 1, 2005 the NASD notified LFA of its acceptance of a Letter of Acceptance, Waiver and Consent (the “Letter”) signed and submitted to the NASD by LFA on 5/23/2005. The Letter noted the following: (1) from approximately 7/21/2001 until 8/31/2003 LFA received notice of 12 events that were subject to reporting requirements and failed to report to the NASD within 10 business days after it knew of the events in violation of NASD Rules 2110 and 3070(B); (2) from approximately 7/21/2001 until 8/31/2003, LFA received 345 written customer grievances and failed to report 206 to the NASD by the 15<sup>th</sup> day of the month following the calendar quarter in which the complaints were received in violation of NASD Rules 2110 and 3070(C); and (3) LFA failed to prepare and maintain adequate written supervisory procedures to ensure compliance with NASD Rule 3070(C) in violation of NASD Rules 2110 and 3010.

LFA implemented procedures to file all requisite disclosures under NASD Rules 2110 and 3070 and has prepared adequate written supervisory procedures in compliance with Rule 3070(C). LFA executed the Letter on 5/23/05 and agreed to pay any monetary sanctions imposed upon notice from the NASD Finance Department. On July 15, 2005 LFA paid the NASD \$75,000 for full payment of the fine issued in connection with the Letter.

## **OTHER FINANCIAL INDUSTRY ACTIVITIES & AFFILIATIONS**

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

LFA’s principal business is as a broker-dealer selling investment products and services, including stocks, bonds, mutual funds, annuities, insurance products and options. LFA and its executive officers spend the majority of their time with these business activities. Some of LFA’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.

LFA 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 Securities 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 LFA and its affiliates. These conflicts of interest and the steps taken by LFA to address them are described above in the section on “Fees and Compensation.”

LFA 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 LFA and LFA Representatives have a financial incentive to recommend advisors based on compensation paid. These conflicts of interest and the steps taken by LFA to address them are described above in the section on “Fees and Compensation.”

## **CODE OF ETHICS**

LFA has adopted an Investment Advisor Code of Ethics pursuant to SEC rules, and all investment adviser representatives and certain other individuals (“Access Persons”) are required to understand and follow its provisions. Through this Code of Ethics, LFA strives to ensure high standards of professional excellence and ethical conduct among its associates. The Code of Ethics is aligned with Lincoln Financial Group’s long standing shared values of: Integrity, Commitment to Excellence, Responsibility, Respect, Fairness, Diversity and Employee Ownership. LFA will provide a copy of its Investment Advisor Code of Ethics to any client or prospective client upon request. If you would like a copy of LFA’s Investment Advisor Code of Ethics please call (800) 237-3813, extension 3056, or send an e-mail to: [lfaria@lfg.com](mailto:lfaria@lfg.com).

## **PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS & PERSONAL TRADING**

Most LFA Representatives are Registered Representatives of LFA in its capacity as a broker-dealer, and are licensed agents of Lincoln National Life Insurance Company (“LNL”). All affiliated companies are direct or indirect subsidiaries of Lincoln National Corporation (“LNC”), hereafter referred to as Lincoln National. LFA and LFA Representatives may recommend products that are managed and/or distributed by Lincoln National companies, on which they may receive separate and typical compensation, if such products are found to be suitable for the client objectives. All of this information is fully disclosed to the client at the time of entering into an

advisory contract. Additionally, Lincoln National companies will profit from any sales of their products.

Although LMAP Investment Managers do not generally engage in principal transactions in LMAP client portfolios, LFA may engage in principal transactions primarily involving debt instruments in non-LMAP accounts. Instruments so acquired by LFA may be recommended to LFA's advisory clients on a fully disclosed basis. All such transactions are done on a riskless transaction basis. Under these circumstances, LFA may buy or sell, in its principal capacity, securities it recommends to its clients. All the information is fully disclosed.

LFA and/or its representatives and other associated persons may buy or sell securities identical to those recommended to clients for their personal accounts. In addition, any related person(s) may have an interest or position in certain securities which may also be recommended to clients. Personal securities transactions by LFA representatives are recorded and monitored by LFA.

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

## **Brokerage Executions**

The wrap-fees charged under LMAP cover brokerage execution at no additional charge for trades executed by MAS and/or its clearing entity, First Clearing (MAS and First Clearing, collectively, "MAS Trading"). Wrap-fees do not cover charges resulting from trades effected with or through broker-dealers other than MAS Trading or their agents nor mark-ups nor markdowns by such other broker-dealers.

### *Brokerage Transactions*

The program's policy is to not accept advisory clients' instructions for directing a client's brokerage transactions to a particular broker-dealer.

Investment Managers in LMAP are generally free to consider MAS Trading's trading capability versus other brokers' trading capability. However, IPC anticipates that most trades will be placed through MAS Trading for execution because of their execution capabilities and because the wrap-fee paid by clients covers trade charges only when trades are executed through MAS Trading or their agents. Wrap-fees do not cover charges resulting from trades effected with, or through, broker-dealers other than MAS Trading or their agents nor mark-ups nor mark-downs by such other broker-dealers. Further, it is expected that Investment Managers would typically consider trades executed via MAS Trading are without commissions or retail mark-ups or mark-downs when comparing the cost of trading for equity securities with other brokers. IPC would expect such a comparison by an Investment Manager would generally result in a decision to execute most trades through MAS Trading.

IPC has full discretion in the management of accounts in its capacity as a Portfolio Manager or Overlay Portfolio Manager for the MMSP accounts. Clients direct IPC to use the brokerage services offered by MAS Trading to effect transactions for the client's account. IPC may use another broker or dealer to effect transactions for the account when it reasonably believes it can achieve best execution by using such other broker or dealer. However, because commissions for transactions executed by MAS Trading are included in the wrap-fee the client pays, IPC will not seek to negotiate commission rates with MAS Trading and will use MAS Trading to execute most, if not all, transactions for the account. However, if IPC believes that it would not be able to achieve best execution on a securities transaction by placing trades for the client's account through MAS Trading, IPC may execute securities transactions through another broker-dealer, and the account will pay separate transaction costs.

## **REVIEW OF CLIENT ACCOUNTS**

On a daily basis, account activity is reviewed by IPC for exceptions (entries that are not consistent with the client account) and violations of client restrictions. Each LMAP account is balanced and reconciled by IPC, at least monthly, against the client's custodian's statement. The IPC Manager of Advisory Operations is responsible for overseeing this activity.

### **Separately Managed Accounts**

On a quarterly basis, the IPC's Consulting Group reviews each actively managed account relationship. These individuals review accounts to look at asset allocation, holdings, performance, as well as industry, sector and issue concentrations and for general adherence to an Investment Manager's stated style. Any discrepancies noted will be reviewed with the Investment Manager. Other items reviewed may include the risk profile of the portfolio, the client's objectives and performance versus a comparable benchmark. The IPC Manager of Advisory Operations & Performance Analyst is also responsible for reviewing the performance for all accounts. Any account performance that significantly varies from a comparable benchmark is flagged. Accounts are also reviewed for dispersion characteristics. An inexplicable or unsatisfactory response from the Investment Manager may subject them to a review by the Vice President of Due Diligence.

Account reviewers follow IPC's policies and procedures that are reasonably designed to detect or prevent violation of a client's investment guidelines. If an issue is raised during a review, an inquiry must be made until such issue is resolved. If warranted, an in-depth review may be followed by a discussion with the Investment Manager, LFA, and/or the LFA Representative and, finally, with the client (if requested by LFA or the LFA representative).

The client's LFA Representative will review the client's investment objectives, and on at least an annual basis, will inquire if the client's financial situation or investment objectives have changed. The client's LFA Representative, through communication with the client, is expected to monitor the management of the account's assets for appropriateness, given the client's stated investment objectives and risks.

## **Multiple Manager Strategy Portfolio Accounts**

On a monthly basis, the Overlay Portfolio Manager(s) for the Multiple Manager Strategy Portfolio (“MMSP”) accounts is responsible for reviewing these MSP accounts for performance dispersion. If there is unexpected dispersion among client accounts utilizing the same strategy, the transactions and/or security positions may be reviewed to determine the reason for the unexpected dispersion. On a quarterly basis, IPC’s composite strategy performance results are compared to the performance results that the Model Manager and Emerging Manager Models achieved in their direct managed accounts which are reported in the Model Manager’s composite results. Any significant divergence of MSP strategy results, as compared to Model Manager or Emerging Manager composite results, will be reviewed in order to determine if the divergence is logical, or if the divergence may be due to a problem with the implementation of the Model Manager’s or Emerging Manager’s Model portfolio.

On a daily basis, the MMSP accounts are also reviewed for exceptions and restrictions by IPC. Each account is balanced and reconciled by IPC at least monthly, if not daily, against the client’s custodian. On a monthly basis, MMSP accounts are reviewed for performance dispersion. If there is unexpected dispersion among client accounts utilizing the same strategy, the transactions and/or security positions may be reviewed to determine the reason for the unexpected dispersion. Also, accounts are reviewed to compare the current asset allocation between cash, equities and bonds to the client’s target allocation as determined by the Statement of Investment Policy (“SOP”). When an asset class is out of the predefined allowable range, the MMSP Overlay Portfolio Manager will work to bring the asset allocation back towards its target allocation.

## **Client Reporting**

LMAF clients are provided a quarterly report that includes portfolio analysis, portfolio performance, asset allocation, portfolio holdings, capital gains and losses report and a cash ledger detailing account transactions for the quarter. MMSP clients are provided a quarterly report that includes portfolio performance, asset allocation, portfolio holdings, capital gains and losses and contributions, withdrawals and income transactions for the quarter. However, LFA and IPC will not disclose information about the client to the Wealth Managers, Investment Executives and others except as disclosed in LFA’s and IPC’s Privacy Policy, respectively. LFA and IPC will share client information with parties who provide services to the client’s accounts, including investment management firm(s). The quarterly reports referred to above are generated following the quarters ending March 31st, June 30th, September 30th and December 31st.

LMAF also makes available quarterly, a personalized LMAF consulting letter for the LFA Representatives’ clients. The purpose of the consulting letter is to provide clients with a meaningful framework within which to review their portfolio’s recent quarterly performance, as well as the last 12 months’ performance and inception-to-date performance, if available. The quarterly consulting letter is not provided for the MMSP accounts.

Portfolio performance is calculated and reported by IPC independently of the Investment Manager(s) and Model Manager(s). This third-party consultation about performance allows for a system of checks and balances for separately managed accounts when reporting a client's performance. IPC follows industry standards in the calculation of performance information for a client's account.

Clients generally receive confirmation of transactions, as well as monthly statements, from MAS (produced by First Clearing) in accordance with their LMAP agreement(s). If the client has selected a custodian other than MAS, the nature and frequency of reports will be determined by the agreement between the client and the custodian. LFA strongly urges clients to compare the information on their LMAP statement with the statement from their custodian. If clients have any questions about their statements, please call their LFA Representative or contact IPC Client Services at 561-912-1040 or 800-346-4570.

## **Electronic Access of Communications**

As an LMAP advisory client, the client may consent to electronic delivery of account communications ("Account Communications") at LFA and IPC's discretion. IPC will provide this delivery of Account Communications by giving clients access to their IPC account information via IPC's internet site utilizing an access password and account number. This may include all current and future advisory account statements, trade confirmations, notices, disclosures, regulatory communications, and other information, documents, data, and records regarding client's IPC account. However, IPC is not able to provide electronic access or delivery of the client's custodian statements and information. This consent to electronic delivery, when given, will be effective immediately and will remain in effect unless, and until, revoked. Clients may revoke this consent at anytime and request paper copies by writing to: Independent Portfolio Consultants, Inc., Attention: Compliance, 5002 T-Rex Avenue – Suite 225, Boca Raton, FL 33431.

## **CLIENT REFERRALS & OTHER COMPENSATION**

### **Referral Arrangements**

LFA also has arrangements to pay a cash referral fee to unrelated persons including financial institutions and various CPA firms, for referring clients who participate in LMAP ("Finder(s)"). These arrangements are conducted pursuant to a written agreement between LFA and the Finder, in accordance with the requirements of 17CFR Section 275.206(4)-3 and any state-specific regulations. Prior to or at the time of entering into any advisory contract, the client will be provided with a Disclosure Letter describing the relationship between LFA and the Finder, and the compensation that the Finder is being paid to refer the client to LFA. In order for the Finder to receive any portion of the investment advisory fees paid by the client, a written acknowledgement that the client has received a copy of both LFA's Disclosure Document and the Disclosure Letter must be signed by the client. LFA will pay the Finder a referral fee, from the LFA portion of the advisory fee charged to the client. The LMAP fee will not be increased due to the Finder's relationship with LFA. The

Finder's fee for LMAP will be equal to the percentage specified in the Finder's agreement signed between LFA and the Finder and disclosed to the client in the Disclosure Letter

## **Additional Compensation to LFA and its Affiliates**

LFA has relationships with both affiliated and non-affiliated companies that may provide additional revenue and marketing support to LFA as well as education and training to LFA Representatives for the sale of various mutual fund, annuity, life insurance and alternative investment products. Such revenue and marketing support does not affect the compensation to any LFA Representative or manager. For current information regarding specific revenue and marketing support, including a list of product sponsors, please go to: [www.lfa-sagemark.com](http://www.lfa-sagemark.com).

LFA 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 LFA receives may vary depending on the particular investment.

LFA Representatives may act as agents of the companies whose products they sell, and may provide services to the client on behalf of such companies. LFA Representatives may be compensated by LFA 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.

If a client is in need of certain types of products and/or services that are not offered by LFA, LFA may refer the client to various third party entities that provide such products and/or services, and LFA may be compensated through referral fees paid by the applicable third party. Examples of these types of products and/or services may include, without limitation, business valuation, foundation formation, and tax strategies.

In some cases, LFA 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. LFA 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. LFA Representatives may also receive compensation based on the sales of Lincoln products by other representatives. LFA Representatives also have the option to participate in benefit programs whose costs are partially reimbursed by Lincoln affiliates, and/or which are based on sales volume of Lincoln products. LFA-affiliated companies may also benefit financially from the sale of Lincoln Financial Group life insurance, annuity, and asset management products manufactured or sponsored by a Lincoln Financial Group affiliate and offered by an LFA Representative.

Some experienced new planners transitioning their practices to LFA have been offered loans in anticipation of future sales of products and services offered by LFA, including both Lincoln Financial Group and non-Lincoln Financial Group products and services. Some loans have been offered in anticipation of Lincoln Financial Group products alone. The repayment of these loans may be wholly or partially waived based on the attainment of certain sales levels or may be funded by additional compensation for these sales.



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

While LFA's investment advisory business does not involve providing custodial services for client assets, in certain instances where clients have authorized LFA to deduct investment advisory fees from their brokerage accounts, LFA may be deemed to have access to cash in the clients' accounts. LFA is registered as a broker-dealer and is subject to the SEC net capital rules.

## **Custody**

LFA, through IPC, may directly debit a client's account(s) for the payment of our advisory fees, as authorized by the client. This ability to deduct our advisory fees from a client's accounts causes our firm to exercise limited custody over your funds or securities. Neither LFA nor IPC is a qualified custodian and you should know that neither LFA nor IPC has physical custody of clients' funds and/or securities.

Client funds and securities will be held with a bank, broker-dealer, or other independent, qualified custodian. The client selects a custodian to have possession of the assets of the account, to settle transactions for the account, and to accept instructions from Investment Managers and/or LFA or IPC regarding the assets in the account. In addition, these custodians provide the Investment Managers and Overlay Portfolio Manager information on the additions to or withdrawals from the account.

Clients will receive account statements from the independent, qualified custodian(s) holding client funds and securities at least quarterly. The account statements from your custodian(s) will indicate the amount of our advisory fees deducted from your account(s) each billing period. You should carefully review account statements for accuracy.

If you have a question regarding your account statement or if you did not receive a statement from your custodian, please contact Irene Nigen, Managing Director at 561-912-1050.

LMAP accounts are generally held through Managed Account Services, LLC as introducing broker-dealer. MAS uses First Clearing on a fully-disclosed basis for clearing and custody services. First Clearing, a non-bank affiliate of Wells Fargo & Company, produces account statements and trade confirmations, and provides IPC with other recordkeeping, operational, clearing and custodial services. First Clearing is a member of FINRA, SIPC, the New York Stock Exchange, the NASDAQ Stock Market and other major regional stock exchanges. Clients who maintain securities accounts with MAS through First Clearing, are protected by SIPC up to \$500,000 for cash and securities, with a limit of \$250,000 for cash awaiting reinvestment. First Clearing also provides coverage in excess of the \$500,000 SIPC limits through its policy with Lloyds of London Syndicate, the underwriter of this additional protection. This additional protection covers missing securities and cash in client brokerage accounts up to a firm

aggregate limit of \$1 billion, of which \$1.9 million may cover cash awaiting reinvestment at the individual account level. However, this protection does not cover market losses. Assets held at outside custodians are not protected by First Clearing's SIPC coverage or the additional insurance. Additionally, custody fees may be incurred if a custodian other than MAS is used. Neither LFA nor IPC maintains physical custody of clients' funds or securities.

## **FINANCIAL INFORMATION**

LFA does not require nor solicit prepayment of more than \$1,200 in fees per client, six months or more in advance. LFA 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® PRIVACY PRACTICES NOTICE LINCOLN FINANCIAL SECURITIES CORPORATION® 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.**

Lincoln Financial Network is the marketing name for Lincoln Financial Advisors and Lincoln Financial Securities, both members of FINRA and SIPC.  
GB07367

Page 1 of 2  
6/09

## **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 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