

# MODEL WEALTH PORTFOLIOS (MWP) PROGRAM FORM BROCHURE

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This program brochure provides information about the qualifications and business practices of LPL Financial ("LPL"). If you have any questions about the contents of this brochure, please contact LPL at [lpfinancial.adv@lpl.com](mailto:lpfinancial.adv@lpl.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority.

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

## ITEM 1 COVER PAGE

## ITEM 2 MATERIAL CHANGES

This Brochure contains changes from the last annual update of this Brochure dated March 31, 2011. The following is a summary of certain changes. Item 4 has been updated to state that customized model portfolio requests, liquidation requests in connection with withdrawals, and changes to the model portfolios or investment objective selected may take up to 5 business days to process, and, in certain circumstances, may take longer. The "Fee Schedule" section under Item 4 was updated to provide more information about the Account Fee as shared between LPL, Advisor and any Outside Strategist. The "Participation or Interest in Client Transactions" section under Item 9 of this Brochure was updated to include information about the one-time set up fee LPL may charge to mutual fund product sponsors to add a new fund to its recordkeeping platform. The "Other Compensation" section of Item 9 of this Brochure was updated to provide further information regarding the types of reimbursement LPL may receive from product sponsors. This section of Item 9 was also updated to include information about benefits LPL receives on the short-term investment of cash in program accounts prior to the time the cash is invested for the account.

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## ITEM 4 SERVICES, FEES AND COMPENSATION

### Services

LPL sponsors various types of advisory programs, including wrap fee programs and mutual fund asset allocation programs. LPL makes these programs available to clients directly and also through third party investment advisor firms ("Advisor") and their associated persons. This Brochure provides a description of LPL's Model Wealth Portfolios ("MWP") program when offered through an Advisor. For more information about LPL's advisory services and programs other than MWP, please contact LPL or your Advisor for a copy of a similar brochure that describes such service or program or go to [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

The MWP program is a professionally managed mutual fund and exchange-traded fund ("ETF") asset allocation program in which LPL and Advisor provide ongoing investment advice. The Advisor obtains the necessary financial data from the client, assists the client in determining the suitability of the program and assists the client in setting an appropriate investment objective. The Advisor, or client with the assistance of the Advisor, selects a model portfolio of funds ("Portfolio") designed by LPL's Research Department or a third party investment strategist ("Outside Strategist") consistent with the client's stated investment objective. The Advisor provides ongoing advice on the selection or replacement of a Portfolio or an Outside Strategist based on the client's individual needs. The Advisor, or the client with the assistance of the Advisor, may choose more than one Portfolio to be managed within a single MWP account. If client authorizes Advisor to take discretion to select Portfolios on behalf of client, such authority will be set out in the Account Agreement and Application signed by the client.

LPL's Research Department or the Outside Strategist is responsible for selecting the mutual funds and/or ETFs within a Portfolio and for making changes to the funds selected. LPL has discretion to buy and sell securities in the account according to the Portfolio selected and liquidate previously purchased securities that are transferred into the account. Exchange-traded notes ("ETN") and closed-end funds may also be purchased in an account. The client authorizes LPL to have discretion by executing the Account Agreement and Account Application.

The Outside Strategists are independent investment advisor firms that provide LPL on an ongoing basis with a Portfolio that includes recommended asset allocations and funds. LPL enters into an agreement with the Outside Strategist for these Portfolio services. The Outside Strategist does not have discretion from the client to implement the Portfolio and does not provide individualized investment advice to specific program clients. In certain cases a Portfolio may

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consist only of mutual funds and/or ETFs within the same fund family or within affiliated fund families. In such a Portfolio, LPL's Research Department or the Outside Strategist (as applicable) will select only those funds within the fund family or affiliated fund families.

LPL acts as the overlay portfolio manager ("OPM") in coordinating the trades in the account and performing tax harvesting services. LPL as the OPM is responsible for rebalancing accounts in accordance with the allocations in the Portfolio. LPL will review an account to determine if rebalancing is appropriate based on the frequency selected by the client at account opening or as altered by the client or the Advisor from time to time. The choices for frequency of rebalancing review are quarterly (four times per year), semiannually (two times per year) or annually (once per year). At each rebalancing review date, LPL will rebalance the account only if at least one fund position is outside a pre-determined range, subject to a minimum transaction amount established by LPL in its discretion. In addition, LPL will review an account for rebalancing in the event that LPL's Research Department or the Outside Strategist changes the allocation targets.

LPL, at the request of the client through Advisor, performs tax harvesting. In such case, proceeds of tax-related transactions may be held in cash until appropriate wash sale periods have expired. Once the wash sale period has expired, the related proceeds will be invested according to the current targeted allocation for the Portfolio. In addition, LPL may delay placing rebalancing transactions for non-retirement accounts by a number of days, to be determined by LPL, in an attempt to limit short-term tax treatment for any position being sold. Under certain conditions, LPL also will accommodate requests for all or a portion of an account to remain allocated to cash for a period of time. Such customized requests, liquidation requests in connection with withdrawals, and requests for changes to the Portfolios or investment objective selected may take up to 5 business days to process, and may take longer in certain circumstances.

In connection with the program, LPL also acts as custodian to accounts, provides research information to Advisor, provides brokerage and execution services as the broker-dealer on transactions, and performs administrative services, such as quarterly performance reporting to clients.

## Fee Schedule

In the MWP program, clients pay LPL and Advisor an ongoing advisory fee ("Account Fee"). The Account Fee is negotiable between the client and the Advisor and is set out in the Account Application. The Account Fee is a straight percentage based on the value of all assets in the account, including cash holdings. The maximum Account Fee is 2.50%. LPL and Advisor do not accept performance-based fees under MWP. The Account Fee is paid to LPL, and LPL retains up to 0.65% for its administrative and custodial services, OPM services and the Portfolio design services of LPL Research. LPL pays a portion of the Account Fee to the Outside Strategist if a Portfolio designed by an Outside Strategist is selected. LPL shares up to 100% of the remaining portion of the Account Fee with the Advisor based on the agreement between LPL and the Advisor.

If a Portfolio designed by an Outside Strategist is selected, the Outside Strategist will receive a portion of the Account Fee. The portion of the Account Fee paid to the Outside Strategist is negotiated between LPL and the Outside Strategist and ranges from 0% to 0.25%. The fee rates charged by Outside Strategists vary based on the Outside Strategist and the Portfolio selected. The Advisor when determining the Account Fee will factor in any Outside Strategist fee, and the Outside Strategist fee may result in a higher Account Fee to the client.

## How the Account Fee is Charged

LPL deducts the Account Fee and other fees and charges associated with an MWP account from the account. LPL calculates and deducts the Account Fee in the method described in the Account Agreement, unless other arrangements are made in writing. If a client wishes to be billed for the Account Fee, rather than a deduction directly from the account, the client needs to make a request to LPL through the Advisor.

## Payment in Advance and Refund of Pre-Paid Fees

LPL deducts the Account Fee quarterly in advance. If the Account Agreement is terminated before the end of the quarterly period, LPL will pay the client a pro-rated refund of any pre-paid quarterly Account Fee based on the number of days remaining in the quarter after the termination date. However, if the account is closed within the first six months by the client or as a result of withdrawals that bring the account value below the required minimum, LPL and Advisor reserve the right to retain the pre-paid quarterly Account Fee for the current quarter in order to cover the administrative costs of establishing the account (for example, the costs related to transferring positions in and out of the account, data entry in opening the account, reconciliation of positions in order to issue quarterly performance reports, and re-registration of positions). After the termination date, LPL may convert the account to a brokerage account. In a brokerage account, client is charged a commission for each transaction and LPL and Advisor have no responsibility to provide ongoing investment advice.

## Other Types of Fees and Expenses of LPL

In addition to the Account Fee, clients also pay LPL other miscellaneous administrative or custodial-related fees and charges that may apply to an MWP account. LPL notifies clients of these charges at account opening and makes available a list of these charges on its website at [www.lpl.com](http://www.lpl.com).

## Fees Charged by Third Parties

There are other fees and charges that are imposed by third parties other than LPL that apply to investments in MWP accounts. Some of these fees and charges are described below. In MWP, assets are invested in mutual funds or ETFs and, therefore, there are two layers of advisory fees and expenses for those assets. Client will pay an advisory fee to the fund manager and other expenses as a shareholder of the fund. Client will also pay the Account Fee with respect to those assets. The mutual funds and ETFs available in the program may be purchased directly. Therefore, clients could generally avoid the second layer of fees by not using the advisory services of LPL and Advisor and by making their own decisions regarding the investment.

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If client transfers into an MWP account a previously purchased mutual fund, and there is an applicable contingent deferred sales charge on the fund, client will pay that charge when the mutual fund is sold. If the account is invested in a mutual fund that charges a fee if a redemption is made within a specific time period after the investment, client will be charged a redemption fee. If a mutual fund has a frequent trading policy, the policy can limit a client's transactions in shares of the fund (e.g., for rebalancing, liquidations, deposits or tax harvesting). Decisions regarding the sale of mutual funds in an account may be made by LPL without regard to whether a client will be assessed a redemption fee. Clients can find more information regarding the fees and expenses of a mutual fund or ETF in the fund's prospectus, which is available upon request from the Advisor or directly from the fund.

For those Portfolios consisting of mutual funds, LPL selects only no-load and load-waived mutual funds. In some cases, a mutual fund in MWP will charge shareholders an asset based sales charge or service fee (e.g., 12b-1 fee) that is paid to LPL. For retirement accounts, 12b-1 fees paid to LPL by mutual funds are credited to the account. A retirement account for purposes of this Brochure is an account held by plan subject to the Employee Retirement Income Security Act of 1974 ("ERISA") or an account otherwise subject to Section 4975 of the Internal Revenue Code (e.g., an individual retirement account or IRA). The receipt of 12b-1 fees presents a potential conflict of interest because it gives an incentive to recommend mutual funds for non-retirement accounts based on the compensation received rather than on a client's needs. Outside Strategists do not share in this compensation. LPL does not share this fee with Advisor.

If a Portfolio is selected that only consists of mutual funds and/or ETFs within the same fund family or within affiliated fund families, LPL's Research Department or the Outside Strategist (as applicable) will select only those funds within the affiliated fund families. Because mutual funds or ETFs in a Portfolio may be affiliated with the Outside Strategist that designs the Portfolio, an investment in the affiliated fund generates compensation to the Outside Strategist or its affiliates, including, among other types of compensation, fund-level management fees, in addition to any portion of the Account Fee it receives.

## Important Things to Consider About Fees on a MWP Account

- The Account Fee is a single wrap fee for investment advisory services, the execution of transactions and other administrative and custodial services. Clients do not pay a commission or transaction charge to LPL for the execution of transactions in the account. The Account Fee may cost the client more than purchasing the program services separately, for example, paying an advisory fee plus commissions or transaction charges to a broker-dealer for each transaction in the account. Factors that bear upon the cost of the account in relation to the cost of the same services purchased separately include the:
  - o type and size of the account
  - o type of securities in the Portfolio (whether mutual funds or ETFs)
  - o historical and or expected size or number of trades for the account, and
  - o number and range of supplementary advisory and client-related services provided to the client.
- The Account Fee may be higher than the fees charged by other investment advisors for similar services. This is the case in particular if the Account Fee is at or near the maximum Account Fee set out above. The Advisor is responsible for determining the Account Fee to charge each client based on factors such as total amount of assets involved in the relationship, the number, complexity and mix of the portfolio, the selection of Outside Strategist Portfolios, and the number and range of supplementary advisory and client-related services to be provided to the account. Clients should consider the level and complexity of the advisory services to be provided when negotiating the Account Fee with Advisor.
- The Advisor recommending the program to the client receives compensation as a result of the client's participation in the program. This compensation includes a portion of the Account Fee and also may include other compensation, such as bonuses, awards or other things of value offered by LPL to the Advisor. For example, LPL may pay additional compensation to Advisor by providing reimbursement of administrative servicing fees that Advisor pays to LPL, free or reduced-cost marketing materials, payments in connection with the transition of Advisor's business from another firm to LPL, or attendance at LPL's conferences or events. LPL may pay this compensation based on the Advisor's overall business production and/or on the amount of assets serviced in LPL advisory programs. Therefore, the amount of this compensation may be more than what Advisor would receive if the client participated in other LPL programs, programs of other investment advisors or paid separately for investment advice, brokerage and other client services. Therefore, the Advisor may have a financial incentive to recommend a program account over other programs and services.
- The investment products available to be purchased in the program can be purchased by clients outside of an MWP account, through broker-dealers or other investment firms not affiliated with LPL.

## ITEM 5 ACCOUNT REQUIREMENTS AND TYPES OF CLIENTS

LPL requires a minimum account value for a program account to be opened. The minimums vary depending on the Portfolio selected. The lowest account minimum for a Portfolio is \$25,000. In certain instances, LPL will permit a lower minimum account size for a Portfolio. An account will not be invested according to the Portfolio until the minimum has been reached. The program is available for individuals, IRAs, banks and thrift institutions, pension and profit sharing plans, including plans subject to ERISA, trusts, estates, charitable organizations, state and municipal government entities, corporations and other business entities.

## ITEM 6 PORTFOLIO MANAGER SELECTION AND EVALUATION

In MWP, LPL and Advisor are responsible for the overall investment advice and management services offered to clients, and the client selects the Advisor. Advisor is responsible for determining the standards required for its associated persons. For more information about the Advisor, client should refer to the Advisor's Firm Brochure, which client should have received at the time client opened the account.

LPL makes available Portfolios designed by Outside Strategists. LPL selects and reviews on an ongoing basis the Outside Strategists available on MWP based on quantitative, qualitative and infrastructure criteria, which may include:

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## Quantitative Criteria

LPL evaluates quantitative criteria, including but not limited to:

- Performance
- Number of employees and accounts
- Years in the business
- Assets under management

## Qualitative Criteria

LPL evaluates qualitative criteria, including but not limited to:

- Sound Investment philosophy and process
- Assessment of the investment manager and team
- Risk controls
- Legal and compliance issues

## Infrastructure Criteria

LPL reviews infrastructure criteria to assess whether an Outside Strategist can handle operational requirements including but not limited to:

- Back office review
- Client servicing resources
- Firm-wide program commitment

LPL takes into consideration all criteria, which may include the above criteria and other pertinent criteria; no one criterion is necessarily determinant in the selection decision.

LPL reviews Outside Strategists currently participating in the program and reviews new Outside Strategists prior to their addition to the program. LPL may elect to remove an Outside Strategist should it determine that the Outside Strategist no longer meets one or more of the above selection criteria or other pertinent criteria (e.g., significant change in management staff). In making a decision to remove an Outside Strategist, LPL takes into consideration all criteria; no one criteria is necessarily determinant in the removal and/or replacement decision. Additionally, in its review process, LPL places emphasis on long term overall Outside Strategist performance from a qualitative and/or quantitative viewpoint. Short-term developments are monitored but are not necessarily sufficient for a decision to remove an Outside Strategist.

## Outside Strategist Performance

LPL's Research Department uses information provided by the Outside Strategist and also may use independent, third party data sources when evaluating an Outside Strategist. Outside Strategist performance information is not calculated on a uniform and consistent basis. LPL does not review performance information to determine or verify its accuracy and does not calculate Outside Strategist performance. However, LPL provides Advisor and clients with individual quarterly performance reports. Performance reports are distributed by LPL using third party performance reporting software. Client performance information is calculated by LPL on a uniform and consistent basis using a time weighted basis. Performance reports are reviewed for accuracy by LPL prior to delivery to clients and are intended to inform clients as to how their investments have performed for a period, both on an absolute basis and compared to leading investment indices.

It is important to note that Outside Strategists provide the Portfolios to LPL, and it is LPL that has discretion for trade implementation and execution in MWP accounts. Therefore, Portfolios submitted to LPL by Outside Strategists may represent activity that has already been implemented on behalf of other clients of the Outside Strategist. Because of this fact and because LPL (and not the Outside Strategist) has discretionary authority to implement trades, performance of an MWP account will differ from the performance of an Outside Strategist's discretionary accounts.

## LPL as a Strategist

In MWP, clients may invest in Portfolios designed by Outside Strategists or by LPL's Research Department. LPL's Research Department provides various types of advisory services. LPL Research provides research recommendations on asset allocation and mutual funds and ETFs. LPL Research provides investment advice on mutual fund selection and allocation through other LPL advisory programs, such as Optimum Market Portfolios and Personal Wealth Portfolios. LPL Research also reviews and recommends outside portfolio management firms for LPL's separately managed account wrap programs, Manager Select and Manager Access Select.

LPL Research designs many types of Portfolios for MWP to meet the varying needs of clients. LPL Research uses the following investment strategies in designing mutual fund and ETF Portfolios. It is important to note that no methodology or investment strategy is guaranteed to be successful or profitable. Although these descriptions are written in terms of individual equities and/or bonds, they include mutual funds or ETFs whose portfolios consist of the type of equities or bonds referenced.

- *Diversified.* The Diversified investment strategy seeks to promote capital appreciation while taking a reasonable amount of risk to achieve that goal. The strategy is subject to minimal constraints, which allows for a relatively pure implementation of LPL Research's investment advice. In general, Diversified Portfolios should be considered by investors seeking investments in primarily stocks and bonds, along with the occasional non-traditional asset class to

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take advantage of potential market opportunities. These Portfolios will hold primarily traditional asset classes. Secondly, if a non-traditional asset class represents the investment that provides what LPL Research believes is the most appropriate means of taking advantage of a market opportunity, LPL Research will include those asset classes in the Portfolio. Diversified Portfolios tend to be steady in their number of positions and are intended to remain consistently diversified.

- *Diversified Plus.* The Diversified Plus investment strategy seeks to promote capital appreciation by seeking the an appropriate balance of return potential and risk control. Diversified Plus Portfolios are more suited to those investors who seek investment opportunities, regardless of asset class, and are comfortable holding esoteric investments. These Portfolios include any asset class — including alternative strategy asset classes that may incorporate strategies such as Absolute Return or Managed Futures. These Portfolios look both at traditional and non-traditional asset classes and may hold more esoteric investments, if LPL Research considers those asset classes the most appropriate opportunity. If many opportunities exist in the market, these Portfolios can be constructed using a wider array of asset classes and may include a larger number of targeted investments to gain desired exposures. Alternatively, if there are fewer opportunities, Diversified Plus Portfolios will be more concentrated in fewer holdings.

LPL Research designs different versions of the Portfolios. For example, clients can choose either a strategic or tactical version for the Portfolios. The allocations in the strategic Portfolios are intended to help take advantage of market opportunities LPL Research believes will occur or persist throughout a 3 to 5 year time frame. Strategic Portfolios are intended for investors who take a longer term view or who are more tax sensitive. Tactical Portfolios are more flexible and are designed to help take advantage of short, mid, and long-term opportunities the markets present. LPL Research invests these Portfolios based on opportunities for as short as one week and as long as 5 years. Tactically managed Portfolios should be considered by clients who wish to take advantage of shorter-term market opportunities and are not opposed to the prospect of more frequent trading.

In addition, LPL Research designs alpha-focused Portfolios that are structured for more aggressive investors. There are downside risk aware Portfolios that are intended to be structured more conservatively to help provide more protection in the event of a down market. LPL Research designs Portfolios intended for investors who place a priority on income generation and Portfolios for investors seeking to minimize tax impacts. Such income generation versions may be available in investment objectives that are not typically focused on income. Because the Portfolios invest in mutual funds and ETFs and not directly in individual stocks and bonds, clients generally cannot restrict individual securities in a program account, for example, to invest in socially responsible companies. However, LPL Research designs Portfolios that invest in mutual funds that have socially responsible objectives.

### Types of Investments and Risks

The Portfolios may include different types of securities, such as mutual funds, closed-end funds, ETFs and ETNs. Investing in securities involves the risk of loss that clients should be prepared to bear. Described below are some particular risks associated with some types of investments available in the program.

- *Alternative Strategy Mutual Funds.* Certain mutual funds available in the program invest primarily in alternative investments and/or strategies. Investing in alternative investments and/or strategies may not be suitable for all investors and involves special risks, such as risks associated with commodities, real estate, leverage, selling securities short, the use of derivatives, potential adverse market forces, regulatory changes and potential illiquidity. There are special risks associated with mutual funds that invest principally in real estate securities, such as sensitivity to changes in real estate values and interest rates and price volatility because of the fund's concentration in the real estate industry.
- *Closed-End Funds.* Client should be aware that closed-end funds available within the program may not be readily marketable. In an effort to provide investor liquidity, the funds may offer to repurchase a certain percentage of shares at net asset value on a periodic basis. Thus, clients may be unable to liquidate all or a portion of their shares in these types of funds.
- *Exchange-Traded Funds (ETFs).* ETFs are typically investment companies that are legally classified as open end mutual funds or UITs. However, they differ from traditional mutual funds, in particular, in that ETF shares are listed on a securities exchange. Shares can be bought and sold throughout the trading day like shares of other publicly-traded companies. ETF shares may trade at a discount or premium to their net asset value. This difference between the bid price and the ask price is often referred to as the "spread." The spread varies over time based on the ETF's trading volume and market liquidity, and is generally lower if the ETF has a lot of trading volume and market liquidity and higher if the ETF has little trading volume and market liquidity. Although many ETFs are registered as an investment company under the Investment Company Act of 1940 like traditional mutual funds, some ETFs, in particular those that invest in commodities, are not registered as an investment company.
- *Exchange-Traded Notes (ETNs).* An ETN is a senior unsecured debt obligation designed to track the total return of an underlying market index or other benchmark. ETNs may be linked to a variety of assets, for example, commodity futures, foreign currency and equities. ETNs are similar to ETFs in that they are listed on an exchange and can typically be bought or sold throughout the trading day. However, an ETN is not a mutual fund and does not have a net asset value; the ETN trades at the prevailing market price. Some of the more common risks of an ETN are as follows. The repayment of the principal, interest (if any), and the payment of any returns at maturity or upon redemption are dependent upon the ETN issuer's ability to pay. In addition, the trading price of the ETN in the secondary market may be adversely impacted if the issuer's credit rating is downgraded. The index or asset class for performance replication in an ETN may or may not be concentrated in a specific sector, asset class or country and may therefore carry specific risks.
- *Leveraged and Inverse ETFs, ETNs and Mutual Funds.* Leveraged ETFs, ETNs and mutual funds, sometimes labeled "ultra" or "2x" for example, are designed to provide a multiple of the underlying index's return, typically on a daily basis. Inverse products are designed to provide the opposite of the return of the underlying index, typically on a daily basis. These products are different from and can be riskier than traditional ETFs, ETNs and mutual funds. Although these products are designed to provide returns that generally correspond to the underlying index, they may not be able to exactly replicate the performance of the index because of fund expenses and other factors. This is referred to as tracking error. Continual re-setting of returns within the product may add to the underlying costs and increase the tracking error. As a result, this may prevent these products from achieving their investment objective. In addition, compounding of the returns can produce a divergence from the underlying index over time, in particular for leveraged products. In

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highly volatile markets with large positive and negative swings, return distortions are magnified over time. Because of these distortions, these products should be actively monitored, as frequently as daily, and may not be appropriate as an intermediate or long-term holding. To accomplish their objectives, these products use a range of strategies, including swaps, futures contracts and other derivatives. These products may not be diversified and can be based on commodities or currencies. These products may have higher expense ratios and be less tax-efficient than more traditional ETFs, ETNs and mutual funds.

## Voting Client Securities

In MWP, LPL and Advisor do not accept authority to vote client securities. Clients retain the right to vote all proxies that are solicited for securities held in the account. Clients will receive proxies or other solicitations from LPL. If clients have questions regarding the solicitation, they should contact the contact person that the issuer identifies in the proxy materials or their Advisor. In addition, LPL and Advisor do not accept authority to take action with respect to legal proceedings relating to securities held in the account.

## ITEM 7 CLIENT INFORMATION PROVIDED TO PORTFOLIO MANAGERS

The Advisor obtains the necessary financial data from the client and assists the client in setting appropriate investment objectives for the account. The Advisor obtains this information by having the client complete an Account Application which is a part of the Account Agreement. In quarterly communications, LPL asks clients to contact the Advisor if there have been any changes in the client's financial situation or investment objective or if they wish to impose any reasonable restrictions on the management of the account or reasonably modify existing restrictions. Because the Outside Strategist's role is limited to providing Portfolios to LPL, and does not provide individualized discretionary advisory services to MWP clients, LPL generally does not communicate specific client information to Outside Strategists.

Clients should understand that the investment objective selected for the program in the Account Application is an overall objective for the entire account and may be inconsistent with a particular holding and the account's performance at any time. Client also should be aware that achievement of the stated investment objective is a long-term goal for the account.

## ITEM 8 CLIENT CONTACT WITH PORTFOLIO MANAGERS

LPL does not place any restrictions on a client's ability to contact and consult with Advisor or LPL. Because the Outside Strategist's role is solely to provide Portfolios to LPL, and not to provide individualized discretionary advisory services to MWP clients, Outside Strategists generally are not available to be contacted or consulted by MWP clients.

## ITEM 9 ADDITIONAL INFORMATION

### Disciplinary Information

As an investment advisor and broker-dealer regulated by the SEC, LPL has been subject to the following SEC orders:

- The SEC found that LPL willfully violated Rule 30(a) of Regulation S-P, which requires broker-dealers and registered investment advisors to have written policies and procedures that are reasonably designed to safeguard customer records and information. The SEC ordered LPL to cease and desist from committing future violations of Rule 30(a), censured it for its conduct, and ordered it to pay the \$275,000 penalty (2008).
- The SEC found that LPL willfully violated Section 17(a)(2) of the Securities Act of 1933 and Rule 10b-10 under the Securities Exchange Act of 1934 in connection with the SEC's finding that LPL sold mutual fund shares as a broker-dealer without providing certain customers with breakpoint discounts. In connection with the SEC's order, LPL agreed to pay a fine of \$1,116,402 (2004). LPL, as a broker-dealer, is a member of the Financial Industry Regulatory Authority ("FINRA") and has found to be in violation of FINRA's rules related to its brokerage activities. In particular, LPL consented to the following sanctions related to the following matters:
  - LPL's procedures regarding its review of e-mail communications, resulting in a censure and fine of \$100,000 (2011).
  - LPL's procedures on transmittals of cash and securities from customer accounts to third party accounts, resulting in a censure and fine of \$100,000 (2011).
  - LPL's procedures on supervision of variable annuity exchanges, resulting in a censure and fine of \$175,000 (2010).
  - Allegations that LPL failed to reasonably supervise a registered representative regarding his use of strategies and recommendations involving UITs, resulting in a censure and fine of \$125,000 (2008).
  - LPL's procedures on supervision of variable annuity exchanges, resulting in a censure and fine of \$300,000 (2006).
  - LPL's procedures regarding mutual fund Class B and Class C shares, resulting in a censure and fine of \$2,400,000 (2005).
  - LPL's procedures on supervision activities of its registered representative in connection with wire transfers, resulting in a censure and fine of \$75,000 (2005).
  - Allegations that LPL maintained revenue sharing programs in which mutual fund complexes paid a fee for preferential treatment, resulting in a censure and fine of \$3,602,398 (2005).
  - Allegations regarding late filings to FINRA reporting obligations, resulting in a censure and fine of \$450,000 (2004).
  - Allegations regarding failure to provide customers mutual fund breakpoint discounts, resulting in a censure and fine of \$2,232,805 (2004).

LPL, as a broker-dealer, is regulated by each of the 50 states and has been the subject to orders related to the violation of state laws and regulations in connection with its brokerage activities. For more information about those state events and other disciplinary and legal events involving LPL and its IARs, client should refer to Investment Advisor Public Disclosure at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) or FINRA BrokerCheck at [www.finra.org](http://www.finra.org).

## Other Financial Industry Activities and Affiliations

A11-R - 0712



# MODEL WEALTH PORTFOLIOS (MWP) PROGRAM FORM BROCHURE

LPL is a broker-dealer registered with FINRA and the SEC. As a broker-dealer, LPL transacts business in various types of securities, including mutual funds, stocks, bonds, commodities, options, private and public partnerships, variable annuities, REITs and other investment products. LPL is registered to operate in all 50 states and has primarily an independent-contractor sales force of registered representatives and investment advisor representatives dispersed throughout the United States. LPL has a small number of employee investment advisor representatives whose services are limited to servicing certain small IRA accounts. If required for their positions with a registered broker-dealer, LPL's principal executive officers are securities licensed as registered representatives of LPL. LPL is also registered as a transfer agent with the SEC and as a futures commission merchant with the Commodity Futures Trading Commission. In addition, LPL is qualified to sell insurance products in all 50 states.

Associated persons of Advisor may also be broker-dealer registered representatives of LPL or another broker-dealer. If an associated person of Advisor is a broker-dealer registered representative of LPL, that person is providing advisory services to program account on behalf of Advisor. That person is not acting in a broker-dealer capacity or on behalf of LPL with respect to services provided under this program.

LPL has an arrangement with Independent Advisers Group ("IAG"), a registered investment advisor and related person of LPL. LPL has been retained by IAG to provide research and model portfolio management services for certain accounts offered through IAG.

LPL and The Private Trust Company ("PTC"), a federally chartered non-depository bank licensed to provide trust services in all 50 states, are related persons. PTC serves as IRA custodian for program accounts set up as individual retirement accounts and receives an annual maintenance fee for this service. PTC also provides personal trustee services to clients for a variety of administrative fiduciary service, which services may relate to a program account. PTC's IRA custodian and trustee services and fees are established under a separate engagement between the client and PTC.

## Code of Ethics and Personal Trading

LPL has adopted a code of ethics that includes guidelines regarding personal securities transactions of its employees and investment advisor representatives ("IARs"). The code of ethics permits LPL employees and IARs to invest for their own personal accounts in the same securities that LPL and IARs purchase for clients in program accounts. This presents a conflict of interest because trading by an employee or IAR in a personal securities account in the same security on or about the same time as trading by a client can disadvantage the client. LPL addresses this conflict of interest by requiring in its code of ethics that LPL employees and IARs report certain personal securities transactions and holdings to LPL. LPL has procedures to review personal trading accounts for front-running. In addition, employees in LPL's Research Department are required to obtain pre-clearance prior to purchasing certain securities for a personal account. Employees and IARs are also required to obtain pre-approval for investments in private placements and initial public offerings. A copy of the LPL code of ethics is available to clients or prospective clients upon request and is available on LPL's website [www.lpl.com](http://www.lpl.com).

## Participation or Interest in Client Transactions

LPL does not engage in principal transactions with its clients in MWP. LPL's parent company, LPL Financial Holdings Inc., is a publicly traded company. LPL Financial Holdings Inc. stock may not be purchased in MWP accounts.

LPL performs recordkeeping and administrative services on behalf of mutual funds and receives compensation for the services based on positions held by MWP clients. These services include establishing and maintaining sub-account records reflecting the issuance, exchange or redemption of shares by each program account. The compensation LPL receives for these services may be paid based on MWP client assets in the fund (up to 0.25%) or number of positions held by MWP clients in the fund (up to \$20 per position). In addition, LPL may charge mutual fund product sponsors a one-time set up fee of up to \$5000 per mutual fund to add the fund to its recordkeeping platform. This compensation presents a potential conflict of interest to LPL, and LPL addresses the potential conflict by disclosing the compensation to clients. Outside Strategists do not share in this compensation and therefore an Outside Strategist does not have a financial incentive to select one mutual fund over another because of this compensation. LPL does not share this compensation with Advisor.

Cash balances in a program account will be automatically invested either in a money market mutual fund or in an interest-bearing Federal Deposit Insurance Corporation ("FDIC") –insured cash account (an "ICA"). The sweep money market funds available in the program pay 12b-1 fees higher than other money market funds. In addition, LPL receives compensation of up to 0.35% for recordkeeping services it provides for the funds. LPL also receives up to 0.15% of the assets invested in the sweep money market funds in connection with marketing support services LPL provides to the money market fund sponsor.

In connection with the ICA, LPL receives a fee equal to a percentage of the average daily deposit balance in the ICA. The fee paid to LPL may be at an annual rate of up to an average of 200 basis points as applied across all deposit accounts taken in the aggregate; therefore, on some accounts, fees to LPL may be higher or lower than this amount. The compensation LPL receives on an ICA may be higher than if a client invests in other sweep investment options. For additional information on the ICA, please see the ICA Disclosure Booklet available from Advisor.

The compensation that LPL receives related to the ICA and the sweep money market funds is in addition to the Account Fee received with respect to the assets in the sweep investment. This compensation related to the ICA and sweep money market funds presents a conflict of interest to LPL because LPL has a financial benefit if cash is invested in the ICA or the sweep funds. However, Outside Strategists do not share in this compensation and therefore an Outside Strategist does not have a financial incentive to allocate a Portfolio to cash instead of other holdings. In addition, LPL Research does not take into account this compensation when it makes decisions on a Portfolio's allocation to cash.

Client should understand that LPL and Advisor may perform advisory and/or brokerage services for various other clients, and that LPL and Advisor may give advice or take actions for those other clients that differ from the advice given to the client. The timing and nature of any action taken for the account may also be different.

# MODEL WEALTH PORTFOLIOS (MWP) PROGRAM FORM BROCHURE

## Review of Accounts

LPL provides Advisor and clients with regular written reports regarding their accounts. LPL provides detailed quarterly performance reports describing account performance and positions. In addition, LPL transmits to clients account statements showing transactions, positions, and deposits and withdrawals of principal and income. Portfolio values and returns shown in performance reports for the year-end time period may include mutual fund dividends paid out prior to December 31 but that were posted to the account within the first 2 business days of the subsequent year. The inclusion of such dividends in the year-end performance report may cause discrepancies between the report and the account statement client receives from LPL for the same period.

## Other Compensation

Outside Strategists reimburse LPL for costs associated with the use of technology necessary for an Outside Strategist to perform its services under the program. Outside Strategists also may reimburse LPL up to \$50,000 for the upfront technology development costs to make the Outside Strategist's Portfolios available on the program.

LPL and LPL employees may receive additional compensation from product sponsors, such as an Outside Strategist. Such compensation may not be tied to the sales of any products or services. Compensation may include such items as gifts valued at less than \$100 annually, an occasional dinner or ticket to a sporting event, or reimbursement in connection with educational meetings, client events or marketing or advertising initiatives. Product sponsors may also pay for, or reimburse LPL for the costs associated with, education or training events that may be attended by LPL employees, Advisor and its employees and representatives and for LPL-sponsored conferences and events. LPL also receives reimbursement from product sponsors for technology-related costs associated with investment proposal tools it makes available to Advisor and its representatives for use with clients.

LPL as broker-dealer may receive compensation for directing orders in securities to particular broker-dealers or market centers for execution. The source and nature of compensation received in connection with trades for client accounts is available at [www.lpl.com](http://www.lpl.com) and can also be furnished upon written request.

LPL may receive compensation in the form of earnings on its short-term investment of cash in program accounts prior to the time the cash is invested for the account (typically, not more than a business day). These earnings are generally known as "float." Cash in the account would typically result from contributions to the account or sales of securities in the account.

LPL and BlackRock Advisors, LLC ("BlackRock") entered into an agreement pursuant to which BlackRock agreed to contribute up to a fixed amount for upfront and ongoing technology costs incurred by LPL for the development involved in launching and operating ETF Portfolios on the program. BlackRock Investment Management, LLC, an affiliate of BlackRock, is one of the Outside Strategists with Portfolios that are available on the program. BlackRock is also affiliated with mutual funds and ETFs that may be included in the Portfolios it designs and those model portfolios designed by LPL or the other Outside Strategists.

Because LPL benefited from BlackRock's financial contribution to the technology development, the amount of which is significant to LPL, LPL's financial interests conflicted with its ability to use strictly objective factors in making the selection of a BlackRock affiliate as an Outside Strategist. Because of the agreement with BlackRock, LPL's financial interests also conflict with its ability to use strictly objective factors in selecting Outside Strategists (other than BlackRock) that have proprietary ETFs. However, LPL did not agree to guarantee that BlackRock's affiliated Portfolios will be used for any MWP client account. In addition, neither LPL nor the other Outside Strategists are required to include BlackRock-affiliated funds or ETFs in their Portfolios. The BlackRock affiliate is required to satisfy the same due diligence review as all other Outside Strategists. Although BlackRock has the right to consult with LPL about the identity of the other Outside Strategists, LPL has sole discretion to select Outside Strategists that are made available on MWP. None of LPL, BlackRock, or any other Outside Strategist is an affiliate of the other.

## Financial Information and Custody

LPL is a qualified custodian as defined in Rule 206(4)-2 under the Investment Adviser Act of 1940 and maintains custody of MWP client funds and securities in a separate account for each client under the client's name. LPL as a qualified custodian sends account statements showing all transactions, positions, and all deposits and withdrawals of principal and income. LPL sends account statements monthly when the account has had activity or quarterly if there has been no activity. Clients should carefully review those account statements.

## Brokerage Practices

In MWP, LPL requires that clients direct LPL as the sole and exclusive broker-dealer to execute transactions in the account. Clients should understand that not all advisors or program sponsors require their clients to direct brokerage. The fact that LPL is both the investment advisor and sole broker-dealer on the account presents a conflict of interest. By directing brokerage to LPL, clients may be unable to achieve the most favorable execution of client transactions. Therefore, directed brokerage may cost clients more money. However, clients should understand that LPL is not paid a commission or transaction charge for executing transactions in MWP accounts. In addition, in the case of mutual funds, execution is made at the net asset value of the fund.

LPL will aggregate transactions for a client with other clients to improve the quality of execution. When transactions are so aggregated, the actual prices applicable to the aggregated transactions will be averaged, and the account will be deemed to have purchased or sold its proportionate share of the securities involved at the average price obtained. LPL also will aggregate rebalancing transactions for an account with other program accounts. Due to the large number of accounts that may be involved in rebalancing transactions on a single day, LPL may effect transactions for some accounts on one day and for other accounts on the following day or days. In such case, LPL will have discretion to sequence the accounts involved in rebalancing transactions with the goal of treating all accounts equitably over time.



# MODEL WEALTH PORTFOLIOS (MWP) PROGRAM FORM BROCHURE

## Brochure Supplements

Accompanying this Brochure are Brochure Supplements for individual employees of LPL. Note that although these individuals are responsible for investment advice provided by LPL, they are not responsible for the ongoing individualized investment advice provided to a particular client. For more information about the Advisor, client should refer to the Advisor's Firm Brochure or contact the Advisor.

### Brochure Supplements for Certain LPL Financial Employees:

George Burton White  
Jeffrey Kleintop  
John J. Canally, Jr.  
Derek Schug  
John Guthery  
Christopher Arthur  
Anthony Valeri  
Marcus Ehlers

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July 1, 2012

This Brochure Supplement provides information about certain LPL employees that supplements the LPL Financial Brochure that is attached to this Brochure Supplement. Please contact LPL Financial at the number above if you did not receive the LPL Financial Brochure or if you have any questions about the contents of this Brochure Supplement. You may also contact your Advisor with questions.

Additional information about these LPL employees is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Note that although these LPL employees included in this Brochure Supplement are responsible for investment advice provided by LPL, they are not the individuals responsible for the ongoing individualized investment advice provided to a particular client. For more information about the Advisor servicing the account, client should refer to the Brochure of the Advisor and the Brochure Supplement for the applicable associated person of Advisor, which should have been provided by the Advisor along with the LPL Financial Brochure and this Brochure Supplement at the time client opened the account. If client did not receive a Brochure for the Advisor, client should contact the Advisor.

## GEORGE BURTON WHITE

### Educational Background and Business Experience

George Burton White was born in 1969. He has a BBA from the College of William and Mary. He is a Managing Director and Chief Investment Officer of LPL, and has served in that position since 2009. He joined LPL in 2007 as a Managing Director and Director of Research. Prior to joining LPL, he was Managing Director and Director of Research at Wachovia Securities from 2000 to 2007.

### Disciplinary Information

There are no legal or disciplinary events to disclose in response to this item.

### Other Business Activities

Mr. White is a registered representative of LPL, a registered broker-dealer and member of FINRA. Although Mr. White is a registered representative, he does not engage in the sale of securities or receive commissions or other compensation based on the sale of securities or other investment products.

### Additional Compensation

As an employee of LPL, Mr. White receives a regular salary and bonus.

### Supervision

As Chief Investment Officer of LPL, Mr. White is responsible for the advice provided by the LPL Research Department through LPL's advisory programs. The LPL Investment Policy Committee is responsible for general oversight of LPL's advisory programs, including review of certain services and products offered through the programs. The advice provided by Mr. White also is subject to LPL's policies and procedures and to any guidelines established for the applicable advisory program. The Chief Compliance Officer – Advisory Compliance is responsible for administering LPL's policies and procedures for investment advisory activities. The telephone number for the Advisory Compliance Department is 1-800-877-7210.

## JEFFREY KLEINTOP

### Educational Background and Business Experience

Jeffrey Kleintop was born in 1969. He has a BS in Business Administration from the University of Delaware and an MBA from Pennsylvania State University. He is the Chief Market Strategist of LPL, and has served in that position since 2007. Prior to joining LPL, Mr. Kleintop was the Chief Investment Strategist at PNC Capital Markets.

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## Disciplinary Information

There are no legal or disciplinary events to disclose in response to this item.

## Other Business Activities

Mr. Kleintop is a registered representative of LPL, a registered broker-dealer and member of FINRA. Although Mr. Kleintop is a registered representative, he does not engage in the sale of securities or receive commissions or other compensation based on the sale of securities or other investment products. Mr. Kleintop is the author of the book *Market Evolution: How to Profit in Today's Changing Financial Markets*, which was published in 2006.

## Additional Compensation

As an employee of LPL, Mr. Kleintop receives a regular salary and bonus.

## Supervision

Mr. Kleintop's advisory activities primarily relate to the financial markets in general. He reports to Mr. White, the Chief Investment Officer of LPL. Any advice he provides to clients is subject to LPL's policies and procedures and to any guidelines established for the applicable advisory program. The Chief Compliance Officer – Advisory Compliance is responsible for administering LPL's policies and procedures for investment advisory activities. The telephone number for the Advisory Compliance Department is 1-800-877-7210.

## ANTHONY VALERI

### Educational Background and Business Experience

Anthony Valeri was born in 1969. He has a BA from the University of California at San Diego. He is Senior Vice President, Market Strategist, at LPL and joined the LPL Research Department in 2002. He has been employed by LPL since 1994.

## Disciplinary Information

There are no legal or disciplinary events to disclose in response to this item.

## Other Business Activities

Mr. Valeri is a registered representative of LPL, a registered broker-dealer and member of FINRA. Although Mr. Valeri is a registered representative, he does not engage in the sale of securities or receive commissions or other compensation based on the sale of securities or other investment products.

## Additional Compensation

As an employee of LPL, Mr. Valeri receives a regular salary and bonus.

## Supervision

Mr. Valeri reports up to Mr. White, the Chief Investment Officer of LPL. Any advice provided to clients by Mr. Valeri is subject to LPL's policies and procedures and to any guidelines established for the applicable advisory program. The Chief Compliance Officer – Advisory Compliance is responsible for administering LPL's policies and procedures for investment advisory activities. The telephone number for the Advisory Compliance Department is 1-800-877-7210.

## JOHN J. CANALLY, JR.

### Educational Background and Business Experience

John J. Canally, Jr. was born in 1964. He has a BA from Villanova University. He is Senior Vice President and Economist at LPL and joined the LPL Research Department in 2007. Prior to joining LPL, he was a Senior Investment Strategist at PNC Wealth Management.

## Disciplinary Information

There are no legal or disciplinary events to disclose in response to this item.

## Other Business Activities

Mr. Canally is a registered representative of LPL, a registered broker-dealer and member of FINRA. Although Mr. Canally is a registered representative, he does not engage in the sale of securities or receive commissions or other compensation based on the sale of securities or other investment products.

## Additional Compensation

As an employee of LPL, Mr. Canally receives a regular salary and bonus.

## Supervision

Mr. Canally reports up to Mr. White, the Chief Investment Officer of LPL. Any advice provided to clients by Mr. Canally is subject to LPL's policies and procedures and to any guidelines established for the applicable advisory program. The Chief Compliance Officer – Advisory Compliance is responsible for

## **MODEL WEALTH PORTFOLIOS (MWP) PROGRAM FORM BROCHURE**

administering LPL's policies and procedures for investment advisory activities. The telephone number for the Advisory Compliance Department is 1-800-877-7210.

### **MARCUS EHLERS**

#### **Educational Background and Business Experience**

Marc Ehlers was born in 1960. He has a BA from the University of Iowa. He is Senior Vice President of Trading at LPL and joined LPL in 2010.

#### **Disciplinary Information**

There are no legal or disciplinary events to disclose in response to this item.

#### **Other Business Activities**

Mr. Ehlers is a registered representative of LPL, a registered broker-dealer and member of FINRA. Although Mr. Ehlers is a registered representative, he does not engage in the sale of securities or receive commissions or other compensation based on the sale of securities or other investment products.

#### **Additional Compensation**

As an employee of LPL, Mr. Ehlers receives a regular salary and bonus.

#### **Supervision**

Any advice provided to clients by Mr. Ehlers is subject to LPL's policies and procedures and to any guidelines established for the applicable advisory program. The Chief Compliance Officer – Advisory Compliance is responsible for administering LPL's policies and procedures for investment advisory activities. The telephone number for the Advisory Compliance Department is 1-800-877-7210.

### **DEREK SCHUG**

#### **Educational Background and Business Experience**

Derek Schug was born in 1970. He has a BS in Economics from Vanderbilt University. He is a Vice President at LPL and joined the LPL Research Department in 2005. Prior to joining LPL, he worked at Columbia Management.

#### **Disciplinary Information**

There are no legal or disciplinary events to disclose in response to this item.

#### **Other Business Activities**

Mr. Schug is a registered representative of LPL, a registered broker-dealer and member of FINRA. Although Mr. Schug is a registered representative, he does not engage in the sale of securities or receive commissions or other compensation based on the sale of securities or other investment products.

#### **Additional Compensation**

As an employee of LPL, Mr. Schug receives a regular salary and bonus.

#### **Supervision**

Mr. Schug reports up to Mr. White, the Chief Investment Officer of LPL. Any advice provided to clients by Mr. Schug is subject to LPL's policies and procedures and to any guidelines established for the applicable advisory program. The Chief Compliance Officer – Advisory Compliance is responsible for administering LPL's policies and procedures for investment advisory activities. The telephone number for the Advisory Compliance Department is 1-800-877-7210.

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## JOHN GUTHERY

### Educational Background and Business Experience

John Guthery was born in 1968. He has a BA from Georgetown University and a MBA from Babson College. He is a Senior Vice President at LPL and joined the LPL Research Department in 1996. Prior to joining LPL, he worked at Liberty Financial.

### Disciplinary Information

There are no legal or disciplinary events to disclose in response to this item.

### Other Business Activities

Mr. Guthery is a registered representative of LPL, a registered broker-dealer and member of FINRA. Although Mr. Guthery is a registered representative, he does not engage in the sale of securities or receive commissions or other compensation based on the sale of securities or other investment products.

### Additional Compensation

As an employee of LPL, Mr. Guthery receives a regular salary and bonus.

### Supervision

Mr. Guthery reports up to Mr. White, the Chief Investment Officer of LPL. Any advice provided to clients by Mr. Guthery is subject to LPL's policies and procedures and to any guidelines established for the applicable advisory program. The Chief Compliance Officer – Advisory Compliance is responsible for administering LPL's policies and procedures for investment advisory activities. The telephone number for the Advisory Compliance Department is 1-800-877-7210.

## CHRISTOPHER ARTHUR

### Educational Background and Business Experience

Christopher Arthur was born in 1976. He has a BS in Finance and Marketing from Susquehanna University and a MBA from Boston University. He is a Vice President at LPL and joined the LPL Research Department in 2005. Prior to joining LPL, he worked on the portfolio management team on State Street Global Advisor's passive international products.

### Disciplinary Information

There are no legal or disciplinary events to disclose in response to this item.

### Other Business Activities

Mr. Arthur is a registered representative of LPL, a registered broker-dealer and member of FINRA. Although Mr. Arthur is a registered representative, he does not engage in the sale of securities or receive commissions or other compensation based on the sale of securities or other investment products.

### Additional Compensation

As an employee of LPL, Mr. Arthur receives a regular salary and bonus.

### Supervision

Mr. Arthur reports up to Mr. White, the Chief Investment Officer of LPL. Any advice provided to clients by Mr. Arthur is subject to LPL's policies and procedures and to any guidelines established for the applicable advisory program. The Chief Compliance Officer – Advisory Compliance is responsible for administering LPL's policies and procedures for investment advisory activities. The telephone number for the Advisory Compliance Department is 1-800-877-7210.

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