

# LPL FINANCIAL FIRM BROCHURE

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March 31, 2012

This brochure provides information about the qualifications and business practices of LPL Financial. If you have any questions about the contents of this brochure, please contact your LPL Financial representative or LPL Financial at [lplfinancial.adv@lpl.com](mailto:lplfinancial.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 Financial 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 the material changes. The Brochure was updated to include information about the participant consulting advice services that may be offered by LPL and its investment advisor representatives. The "Fee Schedule" section under Item 5 was updated to provide more information about the advisory fee as shared between LPL and its investment advisor representatives. The "Other Compensation" section of Item 14 was updated to provide further information regarding the types of reimbursement LPL may receive from product sponsors.

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# LPL FINANCIAL FIRM BROCHURE

## ITEM 4 ADVISORY BUSINESS

### Introduction

LPL Financial LLC ("LPL") is an investment advisor registered with the Securities and Exchange Commission ("SEC") pursuant to the Investment Advisers Act of 1940. LPL has provided advisory services as a registered investment advisor since 1975. Note that registration as an investment advisor with the SEC does not imply a certain level of skill or training. As of December 31, 2011, LPL managed approximately \$80,000,000,000 of client assets on a discretionary basis and approximately \$3,450,000,000 of client assets on a non-discretionary basis. LPL is owned 100% by LPL Holdings, Inc., which is owned 100% by LPL Investment Holdings Inc., a publicly held company.

LPL's advisory services are made available to clients primarily through individuals associated with LPL as investment advisor representatives ("IARs"). For more information about the IAR providing advisory services, client should refer to the Brochure Supplement for the IAR. The Brochure Supplement is a separate document that is provided by the IAR along with this Brochure before or at the time client engages the IAR. If client did not receive a Brochure Supplement for the IAR, the client should contact the IAR or LPL at [lpfinancial.adv@lpl.com](mailto:lpfinancial.adv@lpl.com).

### Types of Advisory Services

LPL offers various types of advisory services and programs, including wrap programs, mutual fund asset allocation programs, advisory programs offered by third party investment advisor firms, financial planning services, retirement plan consulting services, investment research, and other customized advisory services. This Brochure provides information about LPL and the following types of advisory services that LPL provides: financial planning and hourly consulting services, consulting services to participants on retirement plan assets, investment research, advisory services related to advisory programs of third party asset management firms, and customized advisory services.

LPL provides information in separate disclosure brochures for its services offered through the following LPL advisory programs: Strategic Asset Management, Strategic Asset Management II, Manager Select, Manager Access Select, Personal Wealth Portfolios, Optimum Market Portfolios, Model Wealth Portfolios, and Retirement Plan Consulting programs. If clients would like more information on such programs, clients should contact the IAR for a copy of the program brochure that describes such program or go to [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

### Financial Planning Services

As part of LPL's financial planning services, LPL, through its IARs, provides personal financial planning tailored to the individual needs of the client. These services may include, as selected by the client on the financial planning agreement, information and recommendations regarding tax planning, investment planning, retirement planning, estate needs, business needs, education planning, life and disability insurance needs, long-term care needs and cash flow/budget planning. The services take into account information collected from the client such as financial status, investment objectives and tax status, among other data. The IAR delivers to the client a written financial plan. With the exception of the multi-year program described below, the engagement terminates upon delivery of the financial plan.

In some cases, client may elect to receive financial planning services for a period of three years. The services provided through the multi-year program include the following.

- **Year One.** Clients receive a written financial plan from the IAR reflecting the categories of planning services selected on the financial planning agreement. Clients also may participate in periodic financial planning-related consultations with the IAR during the first year in order to monitor the status of the financial plan versus recommendations included in the plan.
- **Years Two and Three.** Clients receive financial planning-related consulting services from the IAR, either in person or by telephone, regarding the categories of planning selected for the respective period. Clients may or may not receive a written financial plan or written summary of the specific planning areas during years two or three of the multi-year program.

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LPL and IAR will not have any discretionary investment authority when offering financial planning. If the client elects to engage the IAR through the multi-year program, the planning services may include recommendations only as to general types of investment products or securities that may be appropriate for client to consider, and will not include recommendations regarding specific investments or securities.

## **Hourly Consulting Services**

As part of LPL's hourly consulting services, LPL, through its IARs, provides consulting services on an hourly basis. These services include, as selected by the client in the consulting agreement, advice regarding tax planning, investment planning, retirement planning, estate planning, cash flow/budget planning, business planning, education planning, and personal financial planning. The services take into account information collected from the client such as financial status, investment objectives and tax status, among other data. The IAR may or may not deliver to the client a written analysis or report as part of the services. The IAR tailors the hourly consulting services to the individual needs of the client based on the investment objective chosen by the client. The engagement terminates upon final consultation with the client.

LPL and IAR do not have any discretionary investment authority when offering hourly consulting services. The IAR makes recommendations as to general types of investment products or securities that may be appropriate for client to consider, and may also provide recommendations regarding specific investments or securities.

## **Participant Consulting Advice Program (PCAP)**

As part of PCAP, LPL, through its IARs, provides written asset allocation and/or specific investment recommendations for client retirement plan assets based on the investment options available within the retirement plan and based on the financial and other information provided by the client. The PCAP services will be limited to recommendations for the following investment options: mutual funds, exchange traded funds, collective investment trusts, pooled separate accounts, allocations among annuity sub-accounts, and publicly traded employer stock ("company stock"). The IAR tailors the recommendation to the individual needs of the client based upon the investment objective chosen by the client. The engagement terminates upon delivery of the written recommendation.

The client retains the sole responsibility for determining whether to implement any recommendations made by the IAR and for placing any resulting transactions. LPL and the IAR do not provide ongoing consulting or management services, and do not have discretionary authority with respect to the client's retirement plan assets. In addition, LPL and IAR do not provide any advice or recommendations regarding any participant loans from client's retirement plan assets.

## **Third Party Asset Management Program (TAMP) Services**

LPL makes available advisory services and programs of third party investment advisors. Under these TAMP programs, LPL, through its IARs, provides ongoing investment advice to clients that is tailored to the individual needs of the client. As part of these TAMP services, the IAR typically obtains the necessary financial data from the client, assists the client in determining the suitability of the program, assists the client in setting an appropriate investment objective and assists the client in opening an account with the TAMP. In addition, depending on the type of program, the IAR may assist the client to select a model portfolio of securities designed by the TAMP or select a portfolio management firm to provide discretionary asset management services. It is the third party investment advisor (and not the IAR) that has client authority to purchase and sell securities on a discretionary or non-discretionary basis pursuant to investment objective chosen by the client. This authorization will be set out in the TAMP client agreement. The Brochure for the particular TAMP will explain whether clients may impose restrictions on investing in certain securities or types of securities.

In particular, LPL currently offers advisory services through TAMPs sponsored by, among others: SEI, Loring Ward Advisor Services, Manning & Napier, Genworth Financial Wealth Management ("GFWM"), Envestnet, ManagersChoice, Lockwood and FTJ Fund Choice. Clients should refer

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to the Brochure, client agreement and other account paperwork for each TAMP for more detailed information about the services available under the program. Described below are TAMPs sponsored by SEI and GFWM.

## **SEI Managed Account Program**

This program offers clients a managed account in which LPL, through its IARs, assists clients in establishing an account with SEI Investment Management Corporation ("SIMCO"). The program seeks to manage taxes within individual separate accounts using U.S. equity and/or municipal bond components in order to meet client's long-term goals of managing taxes while controlling risk. The program may include the services of an integration manager that seeks to manage a consolidated portfolio of individual equity securities. The program may include a percentage of assets allocated to a portfolio of mutual funds sponsored by SIMCO or its affiliates.

The IAR assists the client in selecting an asset allocation strategy appropriate for the client by discussing the various levels of risk and helping the client complete a client questionnaire which details the client's annual income, net worth, and long-term goals and objectives. The IAR explains to the client the various investing alternatives that are available in the program account, provides the client with the prospectuses for any applicable SIMCO-affiliated mutual funds and explains the re-balancing guidelines used in the management of the portfolio.

The client appoints SIMCO to manage assets within the individual separate accounts and re-balance SIMCO-affiliated mutual funds pursuant to the client's goals and objectives. SIMCO may delegate its responsibility for management to one or more portfolio managers, including an integration manager.

## **SEI Asset Management Program**

This program offers clients an asset management account in which LPL, through its IARs, assists client in selecting a portfolio which will be managed in accordance with instructions provided by the client. Under the program, clients authorize LPL and IARs to transmit client instructions to SEI Trust Company to purchase and sell no-load SEI mutual funds ("SEI Funds") pursuant to investment objectives and rebalancing parameters selected by the client.

The IAR assists the client in selecting an asset allocation portfolio appropriate for the client by discussing the various levels of risk and helping client complete a client questionnaire which details the client's annual income, net worth, and long-term goals and objectives. The IAR explains to the client the SEI Funds that are available in the account, provides the client with the prospectuses for each of the SEI Funds selected for investment by the client and explains the rebalancing guidelines used in the management of the portfolio. SEI is responsible for rebalancing the SEI account pursuant to the standard variances established by SEI.

## **Genworth Financial Wealth Management Programs**

These programs offer clients access to GFWM's mutual fund and exchange-traded fund ("ETF") programs as well as GFWM's privately managed accounts and unified managed accounts. These programs are more fully described in GFWM's Disclosure Brochure.

In the mutual fund and ETF asset allocation programs, GFWM offers clients asset allocations composed by a group of independent investment strategists ("Portfolio Strategists"), with the different model allocations designed to satisfy a gradient of risk/return objectives. The Portfolio Strategists have no direct relationship with LPL or the client, make no analysis of and do not consider the clients' individual circumstances or objectives, and do not tailor the model asset allocation to any specific client's needs, circumstances or objectives, but only to the stated risk/return objectives.

The IAR assists the client in selecting the risk/return objective and Portfolio Strategist that best suit the client's objectives. The client then specifically directs the account to be invested in accordance with the chosen asset allocation. When the client selects the asset allocation, the client further directs that the account be automatically adjusted to reflect any adjustment in the asset allocation by the selected Portfolio

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Strategist. This client authorization results in the purchase and sale of certain mutual funds or ETFs without further authorization by the client or any other party at such time as the Portfolio Strategist changes the composition of the selected model asset allocation. LPL and the IAR have no authority to cause any purchase or sale of securities in any client account, or change the selected model asset allocation or to direct the account to be invested in any manner other than as previously authorized by the client. LPL and the IAR do not take any discretionary authority over client accounts.

Additionally, GFWM may offer, through IARs, Privately Managed Accounts and Unified Managed Accounts. Under these accounts, the IAR will introduce clients to, and advise on the selection of, independent investment managers who provide discretionary management of individual portfolios using a variety of different securities analysis methods, sources of information and investment strategies. Clients receive separate disclosure from such investment managers regarding any such investment manager's advisory services.

The client gives investment discretion on any Privately Managed Accounts to the specific investment managers designated by the client. The client gives investment discretion to Genworth Financial Asset Management, a division of GFWM, on unified managed accounts. LPL and the IAR do not have discretionary authority for privately managed accounts or unified managed accounts.

### **Customized Advisory Services**

LPL, through its IARs, offers advisory services to clients outside of an LPL advisory program or any TAMP program described above. Under such customized engagements, clients authorize IARs to purchase and sell securities on a discretionary or non-discretionary basis pursuant to an investment objective chosen by the client. This authority is set out in an advisory agreement between LPL, IAR and the client. The IAR obtains the necessary financial data from the client, assists the client in determining the suitability of the advisory services and assists the client in setting the appropriate investment objective. The IAR provides ongoing investment advice and management that is tailored to the individual needs of the client based on the investment objective chosen by the client. Depending on the specific engagement, the types of securities that the IAR may purchase and sell include mutual funds, ETFs, equities, fixed income securities, and/or variable annuity subaccounts. Clients generally may impose reasonable restrictions on investing in certain securities or groups of securities. The assets managed as part of a customized engagement typically are held at a custodian other than LPL.

### **Research Services**

LPL's Research Department makes available investment research materials, which include recommendations on asset allocation and mutual funds, variable annuity subaccounts, and ETFs. When LPL provides investment research, LPL makes no analysis of and does not consider clients' individual circumstances or objectives, and does not tailor any model asset allocation to any specific client's needs, circumstances or objectives.

LPL's Research Department provides investment consulting services to the investment advisor of the Optimum Funds mutual fund family. These services include assisting the investment advisor in determining whether to engage, maintain or terminate sub-advisors for the Optimum Funds.

### **Referral Services for Investment Advisors**

LPL and its IARs act as referral agents on behalf of third party investment advisors pursuant to a referral agreement. In such case, LPL provides services to the third party investment advisor related to the referred client. The IAR provides the referred client a disclosure statement regarding the role of LPL and the IAR as a referral agent, but the IAR does not enter into an agreement with the client to provide ongoing investment advice. Instead, the client engages the third party investment advisor for advisory services. Please see Item 14 below for more information about these referral services and the related compensation.

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## **ITEM 5 FEES AND COMPENSATION**

### **Financial Planning and Hourly Consulting Services**

For these services, the fee is negotiated between the IAR and client and the amount of the fee is as stated in the client agreement. The fee is paid to LPL, and LPL shares between 90% and 100% of the fee with the IAR based on the agreement between LPL and the IAR. For financial planning, clients pay either on an hourly basis or a per plan basis (flat rate fee). The hourly charge is a maximum of \$400 per hour and the flat rate fee ranges from \$0 to \$15,000. On a case-by-case basis, LPL also may charge a higher fee depending upon the complexity of the plan. The client may elect to pay the fee upon execution of the client agreement, upon delivery of the written financial plan, or a combination of up front and in arrears. Fees for services provided in years two and three of the multi-year program are due at the time services are rendered.

For hourly consulting services, clients pay an hourly charge, up to a maximum of \$400 per hour as negotiated between the IAR and client. The client may elect to pay the fee upon execution of the client agreement or at the time of consultation with the IAR.

Clients should understand that the financial planning or hourly consulting fee client negotiates with IAR may be higher than the fees charged by other investment advisors for similar services. This is the case, in particular, if the fee is at or near the maximum fees set out above. The IAR is responsible for determining the fee to charge each client based on factors such as total amount of assets involved in the relationship, the complexity of the planning services, and the number and range of supplementary advisory and client-related services to be provided. Clients should consider the level and complexity of the planning services to be provided when negotiating the fee with IAR.

Clients pay the financial planning fee by check made payable to LPL Financial LLC. In the alternative, clients also may instruct and authorize LPL to debit the fee from a non-retirement account of the client held at LPL.

For financial planning and hourly consulting services, the client may terminate the client agreement without penalty (full refund) within five days of execution. After the five day period, the client may terminate the client agreement at any time, and may request a refund of unearned fees, if any, based on the time and effort completed prior to termination of the agreement. The client agreement terminates upon delivery of the plan, or three years after execution of the client agreement for the multi-year program, for financial planning, and upon final consultation with the client for hourly consulting. No refunds will be made after completion of the plan or delivery of the consulting services, except when the number of actual hours is less than the estimated number of hours quoted in the client agreement.

### **Participant Consulting Advice Program (PCAP)**

For these services, the fee is negotiated between the IAR and client and the amount of the fee is as stated in the PCAP agreement. The fee is paid to LPL, and LPL shares between 90% and 100% of the fee with the IAR based on the agreement between LPL and the IAR. Client pays either on an hourly basis or flat rate basis. The hourly charge is a maximum of \$400 per hour and the flat rate fee ranges from \$0 to \$5,000. On a case-by-case basis, LPL also may charge a higher fee depending upon the complexity of the service. The client may elect to pay the fee upon execution of the PCAP agreement or upon delivery of the recommendation.

Clients should understand that the fee client negotiates with IAR may be higher than the fees charged by other investment advisors for similar services. This is the case, in particular, if the fee is at or near the maximum fees set out above. The IAR is responsible for determining the fee to charge each client based on factors such as total amount of assets involved in the relationship and the complexity of the PCAP services. Clients should consider the level and complexity of the services to be provided when negotiating the fee with IAR.

Clients pay the fee by check made payable to LPL Financial LLC. In the alternative, clients also may instruct and authorize LPL to debit the fee from a non-retirement account of the client held at LPL.

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The client may terminate the PCAP agreement at any time, and may request a refund of unearned fees, if any, based on the time and effort completed prior to the termination of the agreement. The PCAP agreement terminates upon delivery of the written recommendation. No refunds will be made after delivery of the written recommendation, except when the number of actual hours is less than the estimated number of hours quoted in the PCAP agreement.

## **Third Party Asset Management Programs**

For TAMPs, clients pay an advisory fee as set out in the client agreement with the TAMP sponsor. The fee is typically negotiated among the TAMP sponsor, the IAR and the client. The TAMP sponsor may establish a fee schedule or set a minimum or maximum fee. The TAMP fee schedule will be set out in the Disclosure Brochure provided by the TAMP sponsor. The advisory fee typically is based on the value of assets under management as valued by the custodian of the assets for the account and will vary by program. The advisory fee typically will be deducted from the account by the custodian and paid quarterly in arrears or in advance. The advisory fee is often paid to the TAMP sponsor, who in turn pays a portion to LPL. LPL shares between 90% and 100% of the portion of the fee with the IAR based on the agreement between LPL and the IAR. A TAMP account may be terminated by a party pursuant to the terms outlined in the TAMP client agreement. The TAMP client agreement will explain how clients can obtain a refund of any pre-paid fee if the agreement is terminated before the end of a billing period.

There are other fees and charges imposed by third parties that may apply to investments in TAMP accounts. Some of these fees and charges are described below. The client may be charged commissions, markups, markdowns, or transaction charges by the broker-dealer who executes transactions in the TAMP account. There may be custodial related fees imposed by the custodian of assets for the program account. These additional fees and charges will be set out in the TAMP Brochure and the agreements executed by the client at the time the account is opened.

If assets are invested in mutual funds, ETFs or other pooled funds, 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 TAMP advisory fee with respect to those assets. The mutual funds and ETFs available in the programs often may be purchased directly. Therefore, clients could avoid the second layer of fees by not using the advisory services of the TAMP and IAR and by making their own decisions regarding the investment.

A mutual fund in a TAMP program account may pay an asset based sales charge or service fee (e.g., 12b-1 fee) that is paid to the broker-dealer on the account. LPL and IARs are not paid these fees for TAMP program accounts.

If client transfers into a TAMP 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).

If client holds a variable annuity that is managed as part of a TAMP account, there are mortality, expense and administrative charges, fees for additional riders on the contract and charges for excessive transfers within a calendar year imposed by the variable annuity sponsor. If client holds a UIT in a program account, UIT sponsors charge creation and development fees or similar fees. Further information regarding fees assessed by a mutual fund, variable annuity or UIT is available in the appropriate prospectus, which clients may request from IAR.

If the TAMP program is a wrap fee program, clients should understand that the wrap fee may cost the client more than purchasing the program services separately, for example, paying fees for the advisory services of the TAMP and IAR, plus commissions 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:

- type and size of the account
- types of securities in the account

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- historical and or expected size or number of trades for the account, and
- number and range of supplementary advisory and client-related services provided to the client.

The investment products and services available to be purchased in TAMP program accounts can be purchased by clients outside of a TAMP program account, through LPL or through broker-dealers or other investment firms not affiliated LPL or the TAMP.

**SEI Managed Accounts Program.** In this program, clients pay an annualized fee as set forth below. The fees payable to SIMCO for the individually managed large cap U.S. equity component are as follows:

<u>Portfolio Value</u>	<u>Account Fee</u>	<u>Core/Transition*</u>
\$0 - \$1,000,000	0.90%	0.85%
Next \$2,000,000	0.90%	0.80%
Next \$2,000,000	0.85%	0.75%

\* Assets defined by SIMCO as core/transition assets will be charged the reduced fee.

The fees payable to SIMCO for the individually managed international and small cap U.S. equity components are as follows:

<u>Portfolio Value</u>	<u>Account Fee</u>
\$0 - \$1,000,000	1.20%
Next \$2,000,000	1.10%
Next \$2,000,000	1.00%

The fees payable to SIMCO for the integration manager services with respect to individual equity holdings only are as follows:

<u>Portfolio Value</u>	<u>Account Fee</u>
\$0 - \$499,999	0.15%
Amounts above \$500,000	0.05%

The fees payable to SIMCO for the individually managed fixed income component are as follows:

<u>Portfolio Value</u>	<u>Account Fee*</u>
\$0 - \$1,000,000	0.70%
Next \$2,000,000	0.65%
Next \$2,000,000	0.60%

\* Laddered municipal bond assets will be charged a reduced advisory fee of 0.30%

The maximum fee payable to LPL for the full value of the SEI Managed Account is 1.80% of assets. The advisory fee is payable quarterly in arrears. SIMCO calculates and deducts the advisory fee in the method described in the SEI client agreement.

In addition to the other fees and charges that may apply to a TAMP account described above, client should be aware that for assets invested in SIMCO-affiliated funds, client as a shareholder of such funds will pay management fees and other fund expenses to SIMCO or its affiliates. LPL and IAR do not receive any portion of these fund-related fees.

SEI may restrict access to the SEI Managed Account to those IARs who commit to reaching certain aggregate program level asset minimums. This may present a conflict of interest in that IAR may be inclined to recommend an SEI account over another advisory program or service in order to gain access to the program for its clients.



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## *SEI Asset Management Program*

Clients who invest through this SEI program pay an annualized fee as follows:

<u>Portfolio Value</u>	<u>Maximum Fee</u>
\$0 - \$ 249,999	2.00%
\$250,000 - \$ 499,999	1.75%
\$500,000 - \$ 749,999	1.65%
\$750,000 - \$1,249,999	1.40%
\$1,250,000 - \$1,999,999	1.25%
\$2,000,000 - \$4,999,999	1.15%
\$5,000,000+	1.00%

The account fee is negotiable and payable quarterly in arrears. Advisory fees are deducted from the account pursuant to the SEI client agreement. In addition to the advisory fee, clients should refer to the description of other fees and charges that may apply to a TAMP account described above.

## *GFWM Programs*

Clients in these programs will pay an advisory fee, as well as an investment manager fee for clients investing in privately managed accounts and unified managed accounts. A portion of this fee will be used to pay GFWM a fee. Clients also will pay a custodian fee plus transaction charges, depending on the custodian selected. The custodian on an account also may receive a shareholder servicing fee from mutual funds in the account. Client assets in the GFWM program are not custodied at LPL. There also may be additional fees of the underlying investments, such as mutual funds or ETFs, which will result in a reduction of that product's net asset value.

For clients in the GFWM programs, a portion of the advisory fee paid to LPL and the IAR will be a program fee re-allowed to GFWM for participation in the GFWM programs. Clients enrolled in a privately managed account or unified managed account will also have a portion of their overall fee re-allowed to the investment manager/sub-manager that is designated as the manager on the account. GFWM also may pay a portion of the fee it receives as compensation to strategists and others.

Client fees are payable quarterly in advance based on assets under management using the fee schedules set out in the GFWM Disclosure Brochure.

## **Customized Advisory Services**

Fees for customized advisory services are typically based on the value of assets under management and will vary by customized engagement. The amount of the fee will be set out in the client agreement executed by the client at the time the relationship is established. The advisory fee is negotiable between the IAR and the client and is payable either in advance or in arrears as described in the client agreement. The advisory fee will be paid to LPL, and LPL shares between 90% and 100% of the advisory fee with the IAR based on the agreement between LPL and the IAR. A custom program account may be terminated according to the client agreement. If the client agreement provides for payment in advance, the agreement will state how the client can obtain a refund of any pre-paid fee if the agreement is terminated before the end of the billing period.

In certain cases, LPL may serve as the broker-dealer on transactions in a customized advisory account. In such case, LPL may charge the client transaction charges in connection with trade execution through LPL. The transaction charges will be clearly stated in the client agreement executed by the client at the time the relationship is established. If the custom advisory services apply to variable annuities for which the IAR receives trail compensation, such trail fees generally will be used to offset the advisory fee. In most cases, however, a third party broker dealer will provide trade execution. In such case, the broker-dealer may charge clients commissions, markups, markdowns and/or transaction charges.

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Clients should refer to the information provided above for TAMP programs regarding other fees and charges imposed by third parties that may apply to a custom advisory account.

## Research Services

LPL generally does not charge a separate fee for its Research services. The services are typically part of a bundled service offering to other investment firms. As compensation for the investment consulting services LPL provides to the investment advisor to the Optimum Funds, LPL receives an investment consulting fee of up to 0.285% of assets from such investment advisor.

## ITEM 6 PERFORMANCE BASED FEES AND SIDE-BY-SIDE MANAGEMENT

This Item is not applicable. LPL and its IARs do not accept performance-based fees.

## ITEM 7 TYPES OF CLIENTS

LPL's advisory services are available for individuals, individual retirement accounts ("IRAs"), banks and thrift institutions, pension and profit sharing plans, including plans subject to Employee Retirement Income Security Act of 1974 ("ERISA"), trusts, estates, charitable organizations, state and municipal government entities, corporations and other business entities.

LPL does not require a minimum asset amount for financial planning, hourly consulting, participant consulting or research services. For customized advisory services, any required minimum account value will be set out in the client agreement.

For TAMPs, the TAMP sponsor typically establishes a minimum account value, which will be set out in the account opening documents with the TAMP sponsor. In particular, for the SEI Managed Account program, a minimum account value of \$250,000 generally is required. For the SEI Asset Management program, a minimum account value of \$150,000 generally is required, although accounts valued at \$50,000 and above will be accepted if the IAR is participating in the SEI asset conversion program. For GFWM programs, a minimum account value of \$50,000 generally is required for mutual fund accounts and \$100,000 generally is required for ETF accounts. A minimum account value from \$50,000 to \$500,000 generally is required for privately managed and unified managed accounts, depending on the investment strategy selected for the account.

## ITEM 8 METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

The IAR has access to various research reports and model portfolios to which he or she may refer in determining investment advice IAR provides to clients. The IAR chooses his or her own research methods, investment style and management philosophy. It is important to note that no methodology or investment strategy is guaranteed to be successful or profitable.

LPL's Research Department makes recommendations regarding asset allocation, mutual funds and ETFs. IARs may or may not follow these recommendations in providing investment advice. LPL Research also constructs asset allocation model portfolios and provides recommendations on the funds to populate those models. In constructing these models, LPL Research uses the following investment strategies: Diversified, Diversified Plus, and Alternative Strategy. 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 take advantage of potential market opportunities. Diversified portfolios will hold primarily traditional asset classes. Secondly, if a non-traditional asset class represents the investment that provides the most appropriate means of taking advantage of a market opportunity, it will be included in the recommendation. The non-traditional investments included in Diversified

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portfolios are more standard, such as conservative balanced strategies. Diversified portfolios tend to be steady in their number of positions. These portfolios tend to remain consistently diversified.

- **Diversified Plus.** The Diversified Plus investment strategy seeks to promote capital appreciation by seeking the 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. Diversified Plus portfolios include any asset class — including alternative strategy asset classes that may incorporate strategies such as absolute return or managed futures. Diversified Plus portfolios look both at traditional and non-traditional asset classes and may hold more esoteric investments, if that is considered the most appropriate opportunity. If many opportunities exist in the market, Diversified Plus 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.
- **Alternative Strategy.** The Alternative Strategy investment strategy seeks to promote capital appreciation while taking a reasonable amount of risk to achieve that goal. Unlike the other two strategies that may have an allocation to alternative strategy or non-traditional assets classes, this portfolio typically has an allocation to non-traditional asset classes. This strategy extends the diversification beyond the core style box asset classes into strategies with lower correlation to stocks and bonds in order to lower risk, as defined by standard deviation and maximum drawdown (peak to trough loss), while attempting to maintain long-term performance similar to other portfolios in the same investment objective.

## Types of Investments and Risks

Depending on the type of service being provided, LPL and IARs can recommend different types of securities, including mutual funds, unit investment trusts (“UITs”), closed end funds, ETFs, collective investment trusts, variable annuity subaccounts, equities, fixed income securities, options, hedge funds, managed futures, and structured products. 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 that an IAR may recommend depending on the service provided.

- **Alternative Strategy Mutual Funds.** Certain mutual funds 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 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.

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- **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 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.
- **Options.** Certain types of option trading are permitted in order to generate income or hedge a security held in the program account; namely, the selling (writing) of covered call options or the purchasing of put options on a security held in the program account. Client should be aware that the use of options involves additional risks. The risks of covered call writing include the potential for the market to rise sharply. In such case, the security may be called away and the program account will no longer hold the security. The risk of buying long puts is limited to the loss of the premium paid for the purchase of the put if the option is not exercised or otherwise sold by the program account.
- **Structured Products.** Structured products are securities derived from another asset, such as a security or a basket of securities, an index, a commodity, a debt issuance, or a foreign currency. Structured products frequently limit the upside participation in the reference asset. Structured products are senior unsecured debt of the issuing bank and subject to the credit risk associated with that issuer. This credit risk exists whether or not the investment held in the account offers principal protection. The creditworthiness of the issuer does not affect or enhance the likely performance of the investment other than the ability of the issuer to meet its obligations. Any payments due at maturity are dependent on the issuer's ability to pay. In addition, the trading price of the security in the secondary market, if there is one, may be adversely impacted if the issuer's credit rating is downgraded. Some structured products offer full protection of the principal invested, others offer only partial or no protection. Investors may be sacrificing a higher yield to obtain the principal guarantee. In addition, the principal guarantee relates to nominal principal and does not offer inflation protection. An investor in a structured product never has a claim on the underlying investment, whether a security, zero coupon bond, or option. There may be little or no secondary market for the securities and information regarding independent market pricing for the securities may be limited. This is true even if the product has a ticker symbol or has been approved for listing on an exchange. Tax treatment of structured products may be different from other

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investments held in the account (e.g., income may be taxed as ordinary income even though payment is not received until maturity). Structured CDs that are insured by the FDIC are subject to applicable FDIC limits.

- **High-Yield Debt.** High-yield debt is issued by companies or municipalities that do not qualify for “investment grade” ratings by one or more rating agencies. The below investment grade designation is based on the rating agency’s opinion of an issuer that it has a greater risk to repay both principal and interest and a greater risk of default than those issuers rated investment grade. High yield debt carries greater risk than investment grade debt. There is the risk that the potential deterioration of an issuer’s financial health and subsequent downgrade in its rating will result in a decline in market value or default. Because of the potential inability of an issuer to make interest and principal payments, an investor may receive back less than originally invested. There is also the risk that the bond’s market value will decline as interest rates rise and that an investor will not be able to liquidate a bond before maturity.
- **Hedge Funds and Managed Futures.** Hedge and managed futures funds may be purchased by clients meeting certain qualification standards. Investing in these funds involves additional risks including, but not limited to, the risk of investment loss due to the use of leveraging and other speculative investment practices and the lack of liquidity and performance volatility. In addition, these funds are not required to provide periodic pricing or valuation information to investors and may involve complex tax structures and delays in distributing important tax information. Client should be aware that these funds are not liquid as there is no secondary trading market available. At the absolute discretion of the issuer of the fund, there may be certain repurchase offers made from time to time. However, there is no guarantee that client will be able to redeem the fund during the repurchase offer.
- **Variable Annuities.** If client purchases a variable annuity that is part of the program, client will receive a prospectus and should rely solely on the disclosure contained in the prospectus with respect to the terms and conditions of the variable annuity. Client should also be aware that certain riders purchased with a variable annuity may limit the investment options and the ability to manage the subaccounts.
- **Company Stock.** If company stock is available as an investment option to client in a retirement plan, and if client chooses to invest in company stock, client should understand the risks associated with holding company stock in a retirement plan. These risks may include, but are not necessarily limited to, lack of liquidity, over-dependency on client’s employer, and less flexibility to change the allocation of plan assets. Client should pay careful consideration to the benefits of a diversified portfolio. Although diversification is not a guarantee against loss, it can be an effective strategy to help manage investment risk.

### ITEM 9 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).

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- 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).

### ITEM 10 OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

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, real estate investment trusts 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 IARs dispersed throughout the United States. LPL has a small number of employee IARs whose services are limited to servicing certain small IRA accounts. IARs are registered representatives of LPL. 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.

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 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 client accounts set up as IRAs and receives an annual maintenance fee for this service. PTC also provides personal trustee services to clients for a variety of administrative fiduciary services, which services may relate to an advisory account. PTC's IRA custodian and trustee services and related fees are established under a separate engagement between the client and PTC.

### ITEM 11 CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

#### Code of Ethics and Personal Trading

LPL has adopted a code of ethics that includes guidelines regarding personal securities transactions of its employees and 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

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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 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's parent company, LPL Investment Holdings Inc., is a publicly traded company. LPL does not permit its IARs to recommend or solicit orders of LPL Investment Holdings Inc. stock.

As part of financial planning services or hourly consulting services, an IAR may provide recommendations as to investment products or securities. To the extent that IAR recommends that client invest in products and services that will result in compensation being paid to LPL and the IAR, this presents a conflict of interest. The compensation to IAR and LPL may be more or less depending on the product or service that the IAR recommends. Therefore, the IAR has a financial incentive to recommend that a financial plan or consulting advice be implemented using a certain product or service over another product or service. The client is under no obligation to purchase securities or services through LPL and the IAR.

If the client decides to implement the financial plan or consulting advice through an LPL advisory program or service, the IAR will provide client at the time of engagement with a Brochure, client agreement and other account paperwork that contain specific information about fees and compensation that the IAR and LPL will receive in connection with that program. The Brochures are also available at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

If the client desires instead to purchase securities in a brokerage account through IAR acting as a registered representative of LPL, LPL and IAR will receive brokerage-related compensation for those services, such as commissions and/or trail fees. LPL provides information regarding such brokerage compensation at the time of a brokerage transaction and also on its website at [www.lpl.com](http://www.lpl.com). When considering whether to implement a financial plan through IAR and LPL, clients should discuss with the IAR how LPL and IAR will be compensated for any recommendations in the plan.

It is important to note that clients are under no obligation to implement a financial plan through LPL. Clients should understand that the investment products, securities and services that an IAR may recommend as part of financial planning and hourly consulting are available to be purchased through broker-dealers, investment advisors or other investment firms not affiliated with LPL.

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

## ITEM 12 BROKERAGE PRACTICES

LPL does not receive research or other products or services other than execution from a broker-dealer or third party in connection with client securities transactions ("soft dollar benefits"). LPL does not consider, in selecting or recommending broker-dealers, whether LPL or a related person of LPL receives client referrals from a broker-dealer or third party.

In connection with TAMP programs, the TAMP sponsor may require that clients direct brokerage to a broker-dealer, including the TAMP sponsor or broker-dealer affiliated with the TAMP sponsor. In addition, in connection with customized advisory services, the client may direct that transactions be executed through LPL or specified third party broker-dealer. Clients should understand that not all advisors require their clients to direct brokerage. By directing brokerage to a broker, clients may be unable to achieve the most favorable execution of client transactions and may pay more in transaction charges than other broker-dealer firms. Therefore, directed brokerage may cost clients more

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money. For more information about the brokerage practices of a TAMP sponsor, clients should refer to the Disclosure Brochure for the applicable TAMP.

For customized advisory services, IARs may aggregate transactions in equity and fixed income securities 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 client account will be deemed to have purchased or sold its proportionate share of the securities involved at the average price obtained. IARs may determine not to aggregate transactions, for example, based on the size of the trades, the number of client accounts, the timing of the trades, the liquidity of the securities and the discretionary or non-discretionary nature of the trades. If IARs do not aggregate orders, some clients purchasing securities around the same time may receive a less favorable price than other clients. This means that this practice of not aggregating may cost clients more money.

### **ITEM 13 REVIEW OF ACCOUNTS**

For financial planning, with the exception of the multi-year program, the client agreement for financial planning services terminates upon delivery of the plan. However, clients are encouraged to update their financial plans annually. Such annual review may be conducted at the election of the client and a new agreement for services between LPL, the client and the IAR will be required. The review may consist of a new personal financial plan if the client's circumstances and/or goals have changed (updated financial plan). Alternatively, the review may be a comparison of the client's current assets and goals as stated in the personal financial plan (progress report). For the multi-year program, please refer to Item 4 – Advisory Business for more information.

For TAMP services, IARs review on an ongoing basis client accounts and meet with clients to review such items as accounts statements, quarterly performance reports, and other information or data related to the client's account and investment objective. The TAMP sponsor or custodian of the TAMP account assets send clients regular written reports and statements regarding the account.

For customized advisory services, IARs review client accounts on an ongoing basis to provide management services. IARs review monthly or quarterly accounts statements provided by the custodian. In addition, LPL reviews accounts using risk based criteria such as performance, trading activity, and concentration. The Advisory Chief Compliance Officer of LPL oversees the process for reviewing customized accounts. To the extent LPL acts as broker-dealer and has custody of assets in a customized program account, LPL will transmit to clients required trade confirmations and monthly or quarterly account statements. Such statements show all transactions in cash and securities and all deposits and withdrawals of principal and income during the preceding calendar month or quarter depending upon activity.

### **ITEM 14 CLIENT REFERRALS AND OTHER COMPENSATION**

#### **Other Compensation**

The IAR, LPL and LPL employees may receive additional compensation from product sponsors. However, such compensation may not be tied to the sales of any products. 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 with IAR, client workshops or events, marketing events 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 and IARs 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 its IARs for use with clients.

The IAR recommending a TAMP program to the client receives compensation as a result of the client's participation in the program. This compensation includes a portion of the advisory fee and also may include other compensation, such as bonuses, awards or other things of value offered by the TAMP to the IAR. For example, a TAMP may pay additional marketing payments to LPL, its employees and/or IARs to cover fees to attend conferences or reimbursement of expenses for workshops, seminars presented to clients or advertising, marketing or



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practice management. The amount of this compensation may be more or less than what the IAR would receive if the client participated in LPL advisory programs, programs of other investment advisors or paid separately for investment advice, brokerage and other client services. Therefore, the IAR may have a financial incentive to recommend a TAMP program account over other programs and services.

In the case of a customized advisory engagement, the IAR recommending such service receives compensation from LPL. This compensation includes a portion of the advisory fee and also may include other compensation, such as bonuses, awards or other things of value offered by LPL to the IAR. In particular, LPL pays its IARs bonuses in different ways, for example, payments based on production, awards of stock options to purchase shares of LPL's parent company, LPL Investment Holdings Inc., reimbursement of fees that IARs pay to LPL for items such as administrative services, and other things of value such as free or reduced-cost marketing materials, payments in connection with the transition of my association from another broker-dealer or investment advisor firm to LPL, or attendance at LPL conferences and events. LPL pays IARs this compensation based on the IAR's overall business production and/or on the amount of assets serviced in LPL advisory relationships. The amount of this compensation may be more or less than what the IAR 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 IAR may have a financial incentive to recommend the customized advisory service over other programs and services.

LPL has entered into referral agreements with independent third party investment advisers, pursuant to which LPL and IARs receive referral fees from the third party investment advisors in return for referral of clients. LPL refers clients to such firms as Brinker Capital, BTS Asset Management, Clark Capital, CLS Investments, Curian Capital, Flexible Plan, Foxhall Capital Management, GFWM, Hanlon Investment Management, Icon Advisers, ITS Asset Management, Meeder Advisory Services, Niemann Capital, Stadion, Portfolio Strategies, Potomac Fund, Rochdale Investment Management, Security Benefit, and Symmetry Partners. Because LPL is engaged by and paid by the third party investment advisor for the referral, any recommendation regarding a third party investment advisor as part of a referral presents a conflict of interest. LPL addresses this conflict by providing the client with a disclosure statement explaining the role of LPL and IAR and the referral fee received by LPL and IAR. For more information regarding these arrangements, see Item 4 above.

LPL and its IARs may serve as broker-dealer of record on accounts managed by the independent third party investment advisor. In such case, LPL and its representatives may receive normal and customary compensation (e.g., commissions, 12b-1 fees, trails) from the sale of mutual funds or variable annuities in such accounts. This compensation is in addition to the solicitor fee paid by the third party investment advisor.

In addition, LPL may enter into other agreements with the third party investment advisers to whom LPL refers clients, pursuant to which LPL may provide (i) marketing services on behalf of the third party investment advisers to LPL representatives; or (ii) data technology services to integrate third party investment adviser account data on LPL's technology systems. LPL receives fees for these services and such fees are typically based on the amount of assets referred by LPL to the third party investment adviser. The IAR does not share in these fees.

In some cases, the third party investment advisers pay additional marketing payments to LPL, its employees and/or IAR's to cover fees to attend conferences or reimbursement of expenses for workshops, seminars presented to IARs clients or advertising, marketing or practice management.

### **Client Referrals**

LPL compensates other persons for client referrals. LPL enters into an agreement with such referral agents and pays them a portion of the advisory fee. The referral agent discloses to the client at the time of the solicitation the arrangement and the compensation to be received by the referral agent.

LPL and its IARs may offer advisory services on the premises of unaffiliated financial institutions, like banks or credit unions. LPL has entered into agreements the financial institutions pursuant to which LPL shares compensation, including a portion of the advisory fee, with the financial

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institution for the use of the financial institution's facilities and for client referrals. In such case, instead of paying the IAR the portion of the advisory fee as described above, LPL may share such portion with the financial institution pursuant to the agreement between LPL and the financial institution, and the financial institution will pay part of that amount to the IAR.

### **ITEM 15 CUSTODY**

For TAMP programs, and generally for customized advisory services, client assets are maintained at a custodian other than LPL. In such case, the client will complete account paperwork with the outside custodian that will provide the name and address of the custodian. The client will receive statements and reports directly from the custodian, rather than from LPL. Clients should refer to the statements and reports that they receive from the custodian or TAMP sponsor. Clients should the review these statements and reports carefully.

For PCAP, client's retirement plan assets are maintained at a custodian other than LPL. The retirement plan sponsor (e.g., the client's employer) or the client is responsible for selecting the custodian for the retirement plan assets.

For certain services (e.g., hourly consulting services), LPL may receive prepayment of fees for 6 or more months in advance.

### **ITEM 16 INVESTMENT DISCRETION**

With respect to financial planning, hourly consulting and participant consulting services, LPL and the IAR do not have any discretionary investment authority. For customized advisory services, the IAR may provide management services on a discretionary or non-discretionary basis as stated in the client agreement.

In a TAMP program, the client typically authorizes the third party investment advisor to purchase and sell securities on a discretionary or non-discretionary basis pursuant to the investment objective chosen by the client. This authorization will be set out in the TAMP client agreement. LPL and the IAR do not have discretion on TAMP program accounts.

### **ITEM 17 VOTING CLIENT SECURITIES**

LPL does not accept authority to vote client securities in connection with any of the services described in this Brochure.

### **ITEM 18 FINANCIAL INFORMATION**

LPL is a qualified custodian as defined in Rule 206(4)-2, and is therefore not required to include a balance sheet for its most recent financial fiscal year.

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