

STRATEGIC ASSET MANAGEMENT (SAM)
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 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 also is available on the SEC's website at www.adviserinfo.sec.gov.

ITEM 1 COVER PAGE

ITEM 2 MATERIAL CHANGES

This Brochure contains changes from the annual update of this Brochure dated March 31, 2011. The following is a summary of the material changes. The "Fee Schedule" section under Item 4 was updated to provide more information about the Account Fee as shared between LPL and Advisor. The "Participation or Interest in Client Transactions" section under Item 9 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 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.

ITEM 3 TABLE OF CONTENTS

ITEM 1 COVER PAGE.....1
ITEM 2 MATERIAL CHANGES.....1
ITEM 3 TABLE OF CONTENTS.....1
ITEM 4 SERVICES, FEES AND COMPENSATION.....1
ITEM 5 ACCOUNT REQUIREMENTS AND TYPES OF CLIENTS.....3
ITEM 6 PORTFOLIO MANAGER SELECTION AND EVALUATION.....3
ITEM 7 CLIENT INFORMATION PROVIDED TO PORTFOLIO MANAGERS.....6
ITEM 8 CLIENT CONTACT WITH PORTFOLIO MANAGERS.....6
ITEM 9 ADDITIONAL INFORMATION.....6

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 client directly and also through third party investment advisor firms ("Advisor"). This Brochure provides a description of LPL's Strategic Asset Management ("SAM") program when offered through an Advisor. For more information about LPL's advisory services and programs other than SAM, please contact your Advisor for a copy of a similar brochure that describes such service or program or go to www.adviserinfo.sec.gov.

In the SAM program, Advisor, through its investment advisor representatives ("IARs"), provides ongoing investment advice and management on assets in the client's account. Advisor, through its IARs, provides advice on the purchase and sale of various types of investments, such as mutual funds, exchange-traded funds ("ETFs"), variable annuity contracts, equities, and fixed income securities. Advisor provides advice that is tailored to the individual needs of the client based on the investment objective chosen by the client. Clients may impose restrictions on investing in certain securities or groups of securities by indicating in the Account Application.

LPL acts as custodian to accounts, provides research information to Advisor and its IARs, 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 SAM program, clients pay LPL and Advisor an annual account fee ("Account Fee") for advisory services. The maximum Account Fee is 3.00%. The Account Fee is negotiable between the client and Advisor and is set out in the Account Application. The Account Fee is typically a straight percentage based on the value of all assets in the account, including cash holdings. The Account Fee is paid to LPL, and LPL retains up to 0.25% for its administrative, custodial and brokerage services based on the agreement between LPL and the Advisor. LPL shares the remaining portion of the Account Fee with the Advisor. The Advisor is responsible for sharing its portion of the Account Fee with its IARs.

The Account Fee may be higher than the fee charged by other investment advisors for similar services. 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, type of securities to be held in the program (e.g., mutual funds vs. individual securities), the complexity and mix of the portfolio, 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 the Advisor.

# STRATEGIC ASSET MANAGEMENT (SAM) PROGRAM FORM BROCHURE

## How the Account Fee is Charged

LPL deducts the Account Fee and other fees and charges associated with a SAM 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 or IAR.

## 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 prorated 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 do not provide advisory services to the account, and the Advisor and its IARs have no responsibility to provide ongoing investment advice.

## Other Types of Fees and Expenses of LPL

LPL charges fees related to a SAM account in addition to the Account Fee.

- In SAM, clients do not pay LPL brokerage commissions for execution of transactions in the account; however, the client pays a transaction charge for the purchase and sale of certain securities in the account. The transaction charges are set out in SAM Account Agreement and vary depending on the type of security being purchased or sold. The transaction charges are paid to LPL to defray costs associated with trade execution and are not shared with the Advisor or IARs. For more information regarding LPL's brokerage practices, see the section of this Brochure titled "Additional Information - Brokerage Practices."
- LPL charges accounts with assets valued at less than \$100,000 an additional \$10 quarterly fee at the end of the quarter.
- Clients that hold hedge funds and managed futures pay an annual alternative investment administrative fee of \$35 per position, subject to a maximum of \$100 per account per year.
- If an account is approved for trading on margin and the client has entered into a margin agreement with LPL, the client will be charged margin interest on any credit extended to or maintained by the client. LPL will retain a portion of any interest charged and may share with Advisor. This interest charge is in addition to the Account Fee. The Account Fee is not charged on any margin debit balance, rather only on the net equity of the account.
- Clients also pay LPL other miscellaneous administrative or custodial-related fees and charges that relate to a SAM 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 SAM accounts. Some of these fees and charges are described below. If a client's assets are invested in mutual funds or other pooled investment products, clients should be aware that there will be 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 LPL and Advisor the Account Fee with respect to those assets. Most of the mutual funds 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, Advisor and its IARs and by making their own decisions regarding the investment.

If client transfers into a SAM 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).

Although LPL makes available to be purchased in SAM accounts only no-load and load-waived mutual funds, LPL receives asset based sales charges or service fees (e.g., 12b-1 fees) from certain mutual funds with respect to accounts that are not retirement accounts. A retirement account for purposes of this Brochure is an account held by a plan subject to 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). LPL shares a portion of the 12b-1 fees it receives for non-retirement accounts with Advisor. The receipt of 12b-1 fees presents a potential conflict of interest because it gives LPL an incentive to recommend mutual funds for non-retirement accounts based on the compensation received rather than on a client's needs. LPL addresses this potential conflict through disclosure to clients. Some mutual funds make available share classes that do not pay 12b-1 fees (e.g., institutional share classes) only if a client's holding meets a certain asset minimum. For retirement accounts, 12b-1 fees paid to LPL by mutual funds held in the account are credited to the account.

Certain of the mutual funds available for investment in the program may be affiliated with Advisor. Therefore, investment in an affiliated mutual fund generates additional compensation to the Advisor or its affiliates, including, among other types of compensation, fund-level management fees.

If client holds a variable annuity as part of an 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.

# STRATEGIC ASSET MANAGEMENT (SAM) PROGRAM FORM BROCHURE

If client holds a UIT in the SAM 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 is available upon request from the IAR or from the product sponsor directly.

Advisor may charge fees in addition to the Account Fee. Clients should refer to the Brochure of Advisor for more information regarding fees charged by Advisor.

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

- The Account Fee is an ongoing fee for investment advisory services and other administrative and custodial services. Clients do not pay commissions on transactions but do pay transaction charges. The Account Fee may cost the client more than purchasing the program services separately, for example, paying an advisory fee 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
  - historical and or expected size or number of trades for the account,
  - transaction charges for the securities purchased and sold in the account, and
  - number and range of supplementary advisory and client-related services provided to the client.
- The Account Fee also may cost the client more than if assets were held in a traditional brokerage account. Advisor also may be a broker-dealer and may be able to service clients in a brokerage account. In a brokerage account, a client is charged a commission for each transaction, and the representative has no duty to provide ongoing advice with respect to the account. If the client plans to follow a buy and hold strategy for the account or does not wish to purchase ongoing investment advice or management services, the client should consider opening a brokerage account rather than a SAM account.
- The Advisor and its IARs 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 Advisor or by LPL or Advisor to the IAR. For example, LPL may pay a bonus to Advisor or its IARs in the form of reimbursement of fees that Advisor or its IARs pay to LPL for administrative services. The amount of this compensation may be more or less than what the Advisor and its IARs 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 and its IARs 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 a SAM account, through broker-dealers or other investment firms not affiliated with LPL and Advisor.

## ITEM 5 ACCOUNT REQUIREMENTS AND TYPES OF CLIENTS

A minimum account value of \$25,000 is generally required for the program. In certain instances, LPL will permit a lower minimum account size. 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 SAM, LPL and Advisor do not select, review or recommend other investment advisors or portfolio managers. Advisor through its IARs is responsible for the investment advice and management offered to clients, and the client selects Advisor and its IARs to manage the account. Advisor is responsible for determining the standards required for its IARs to provide investment advice to program accounts. For more information about Advisor and the IAR responsible for the account, client should refer to Advisor's Firm Brochure and the Brochure Supplement for the IAR, which client should have received from Advisor at the time client opened the account.

LPL does not calculate the performance record of IARs, however, LPL does calculate performance for each program account. LPL provides clients with individual quarterly performance reports, which provides performance information on a time weighted basis. LPL performance reports 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.

LPL sponsors other types of advisory programs. The Strategic Asset Management II ("SAM II") program is similar to SAM, in that Advisor provides the investment advice and management to client accounts, except that in SAM II, the client does not pay transaction charges in addition to the Account Fee. Instead, in SAM II, the client pays a single Account Fee for advisory services and execution of transactions, and the Advisor pays LPL the transaction charges. In LPL's separately managed account wrap program, Manager Select, a third party portfolio manager (other than Advisor) provides discretionary advisory services. In LPL's mutual fund asset allocation programs, such as Optimum Market Portfolios and Model Wealth Portfolios, LPL (and not Advisor and its IARs) is responsible for the discretionary advisory services. LPL, Advisor and its IARs do not accept performance-based fees under any LPL advisory programs.

### Investment Discretion

In SAM, Advisor typically provides advisory services on a non-discretionary basis, and therefore, it is the client who directs the purchase and sale of securities in the account. In some cases, the client may provide discretionary authorization to the Advisor and its IAR for transactions in program accounts.

### Methods of Analysis and Investment Strategies

Advisor, through its IARs, chooses the research methods, investment strategy and management philosophy used in managing a SAM account. It is important to note that no methodology or investment strategy is guaranteed to be successful or profitable. The Advisor and its IARs have access to various research reports, including those provided by LPL's Research Department, to which he/she may refer in determining which securities to purchase or sell.

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# STRATEGIC ASSET MANAGEMENT (SAM) PROGRAM FORM BROCHURE

LPL's Research Department makes recommendations regarding asset allocation, mutual funds, variable annuity subaccounts and ETFs. Advisor and IARs may or may not follow these recommendations in managing program accounts. LPL Research also constructs asset allocation model portfolios and provides recommendations on the funds to populate the model portfolios. 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 recommendation. 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 best means of taking advantage of a market opportunity, it will be included in the recommendation. The non-traditional investments included in Diversified 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 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. 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.

For each of the above investment strategies, LPL Research recommends a strategic or tactical version.

- *Strategic.* Strategic portfolios typically have a three- to five-year time horizon. The allocations within these portfolios are intended to help take advantage of market opportunities LPL Research believes will occur or persist throughout that time frame. Although LPL Research recommends investments through a three- to five-year lens, LPL Research may recommend that these portfolios be traded for fine tuning throughout the year. For clients who take a longer term view or are more tax sensitive, a strategic implementation may be more appropriate.
- *Tactical.* Tactical portfolios are more flexible and are designed to help take advantage of short-, mid-, and long-term opportunities the markets present. LPL Research recommends that these portfolios invest in opportunities for as short as one week and as long as five years. Due to the tactical nature, the trading is notably more frequent than strategic portfolios. Tactically managed portfolios should be considered by clients who wish to take advantage of shorter-term market opportunities that may arise and are not opposed to the prospect of more frequent trading.

It is important to note that although LPL Research makes available its recommendations and investment strategies, Advisor and its IARs may take into consideration these recommendations and strategies to a limited extent or not at all. Clients should contact the Advisor through its IAR for additional information on the particular investment strategy used for the account. It is also important to note that Advisor and its IARs may use a combination of investment strategies.

## Types of Investments and Risks

In SAM, Advisor through its IARs can recommend many different types of securities, including mutual funds, unit investment trusts ("UITs"), closed end funds, ETFs, variable annuities, equities, fixed income securities, options, hedge funds, managed futures, and structured products. LPL and Advisor determine the types of investments that are eligible to be purchased in program accounts. 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 are not 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

## STRATEGIC ASSET MANAGEMENT (SAM) PROGRAM FORM BROCHURE

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 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 are generally not 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 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 are available for purchase in the program 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. Funds of hedge funds are pooled investments in several hedge funds. Expenses in funds of hedge funds tend to be significantly higher than most mutual funds. Because it invests in a number of private hedge funds, a fund of funds also bears part of the fees and expenses of those underlying hedge funds as well.
- *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.



# STRATEGIC ASSET MANAGEMENT (SAM) PROGRAM FORM BROCHURE

- *Margin Accounts.* Client should be aware that margin borrowing involves additional risks. Margin borrowing will result in increased gain if the value of the securities in the account go up, but will result in increased losses if the value of the securities in the account goes down. LPL, acting as the client's creditor, will have the authority to liquidate all or part of the account to repay any portion of the margin loan, even if the timing would be disadvantageous to the client. For performance illustration purposes, the margin interest charge will be treated as a withdrawal and will, therefore, not negatively impact the performance figures reflected on the quarterly advisory reports.

## Voting Client Securities

In SAM, LPL, Advisor and IARs 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 IAR. In addition, LPL, Advisor and IARs 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, through its IARs, obtains the necessary financial data from the client and assists the client in setting an appropriate investment objective for the account. The Advisor, through its IARs, 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 Advisor if there have been any changes in the client's financial situation or investment objectives or if they wish to impose any reasonable restrictions on the management of the account or reasonably modify existing restrictions. Client should be aware 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 should further 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 clients' ability to contact and consult with Advisor or its IARs.

## 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

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

## STRATEGIC ASSET MANAGEMENT (SAM) PROGRAM FORM BROCHURE

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.

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 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 a program account. PTC's IRA custodian and trustee services and related 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 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 SAM accounts.

LPL 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. As compensation for these services, LPL receives an investment consulting fee of up to 0.285% of fund assets from the investment advisor to the Optimum Funds. In addition, the Chief Financial Officer of LPL serves as a Trustee of the Optimum Funds. The Optimum Funds are available to be purchased and sold in program accounts. The receipt of this investment consulting compensation by LPL presents a conflict of interest, because LPL has a financial benefit if an Optimum Fund is purchased in an account. However, the investment consulting compensation is retained by LPL and is not shared with Advisor and IARs. Therefore, there is no financial incentive for Advisor and IAR to recommend an Optimum Fund for purchase in a program account.

LPL performs recordkeeping and administrative services on behalf of mutual funds and receives compensation for the services based on positions held by SAM 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 SAM client assets in the fund (up to 0.25%) or number of positions held by SAM 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. However, LPL does not share this compensation with Advisor and therefore Advisor does not have a financial incentive to recommend one fund or another because of this compensation.

If the account is a retirement (or non-retirement but ineligible) account, cash balances are automatically invested in a money market fund. 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% of assets 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.

If a client has a non-retirement (and otherwise eligible) account, cash balances will be automatically invested in an interest-bearing Federal Deposit Insurance Corporation ("FDIC") –insured cash account (an "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 through its IAR.

This compensation that LPL receives related to the ICA and the sweep money market funds is in addition to the Account Fee that LPL, Advisor and IAR receive 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 funds. LPL shares a portion of this compensation with Advisor.

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

# STRATEGIC ASSET MANAGEMENT (SAM) PROGRAM FORM BROCHURE

## Review of Accounts

LPL provides Advisor with an exception reporting system that flags accounts on a quarterly basis for criteria such as performance, trading activity, and concentration. The Advisor oversees the process for reviewing flagged accounts. LPL provides Advisor and clients with regular written reports regarding their accounts. LPL provides detailed quarterly performance reports describing account performance and positions. LPL also provides an additional year-end report for accounts not established on a calendar quarter basis. In addition, LPL sends to clients' trade confirmations and account statements showing transactions, positions, and deposits and withdrawals of principal and income. LPL does not send trade confirmations for systematic purchases, systematic redemptions and systematic exchanges. 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

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 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, its 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 Advisor and its IARs for use with clients.

LPL as broker-dealer may receive compensation for directing orders in securities (such as options) 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.

## Financial Information and Custody

LPL is a qualified custodian as defined in Rule 206(4)-2 under the Investment Advisers Act of 1940 and maintains custody of SAM 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.

Although most securities available in program accounts are custodied at LPL, there are certain securities managed as part of the account that are held at third parties, and not at LPL. For example, hedge funds and managed futures are often held directly with the investment sponsor. For those outside positions, client will receive confirmations and statements directly from the investment sponsor.

For outside positions not custodied at LPL, LPL may receive information (e.g., number of shares held and market value) from the investment sponsor and display that information on statements and reports prepared by LPL. Such information also may be used to calculate performance in performance reports prepared by LPL. Although LPL believes that the information it receives from the investment sponsors is reliable, LPL recommends that you refer to the statements and reports you receive directly from the investment sponsor and compare them with the information provided in any statements or reports from LPL. The statements and reports you receive from LPL with respect to outside positions should not replace the statements and reports you receive directly from the investment sponsor.

## Brokerage Practices

In SAM, LPL requires that clients direct LPL as the sole and exclusive broker-dealer to execute transactions in the account. LPL is not paid a commission for executing transactions. Because LPL is both the investment advisor and broker-dealer on the account, this presents a conflict of interest. Clients should understand that not all advisors require their clients to direct brokerage. 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 for executing transactions in program accounts. In addition, in the case of mutual funds, execution is made at the net asset value of the fund.

Advisor 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. Advisor 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 Advisor and 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.

## ERISA Disclosure

LPL provides certain services under the program as an investment advisor under the Investment Advisers Act of 1940 and also provides services as a broker-dealer.



# STRATEGIC ASSET MANAGEMENT (SAM) 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 research provided by LPL, they are not the individuals responsible for the ongoing individualized investment advice provided to a particular client. For more information about Advisor and an IAR servicing the account, client should contact the Advisor or IAR.

### Brochure Supplements for Certain LPL Financial Employees:

George Burton White	LPL Financial LLC
Jeffrey Kleintop	One Beacon Street, 22nd Floor, Boston, MA 02108-3106
John J. Canally, Jr.	(617) 423-3644
Derek Schug	<a href="http://www.lpl.com">www.lpl.com</a>
John Guthery	
Christopher Arthur	

Anthony Valeri	LPL Financial LLC
	9785 Towne Centre Drive, San Diego, CA 92121
	(800) 558-7567

March 31, 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.

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 Advisor and the IAR managing the account, client should refer to the Advisor's Firm Brochure and the Brochure Supplement for the IAR, which should have been provided at the time client opened the account. If client did not receive these documents related to Advisor and the IAR, client should contact the Advisor or its IAR.

## 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.

# **STRATEGIC ASSET MANAGEMENT (SAM) PROGRAM FORM BROCHURE**

## **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.

### **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.

# **STRATEGIC ASSET MANAGEMENT (SAM) PROGRAM FORM BROCHURE**

## **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 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.

## **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**

## **STRATEGIC ASSET MANAGEMENT (SAM) PROGRAM FORM BROCHURE**

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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