

# **PARK AVENUE Securities®**

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New York, NY 10004  
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*Park Avenue SMA Select<sup>SM</sup> and UMA Select<sup>SM</sup>  
Wrap Fee Program Brochure*

Appendix 1

January 26, 2015

[www.parkavenuesecurities.com](http://www.parkavenuesecurities.com)

**This wrap fee program brochure provides information about the qualifications and business practices of Park Avenue Securities LLC (“PAS”). If you have any questions about the contents of this brochure, please contact us at (888) 600-4667. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.**

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

**PAS is a registered investment adviser. Registration as an investment adviser does not imply a certain level of skill or training.**

## ***2. Material Changes***

The Park Avenue Separately Managed Account Select and Park Avenue Unified Managed Account Select programs are new PAS proprietary wrap fee programs. We encourage you to review this program brochure carefully. In the future, this section will summarize any material changes that have been made to the brochure from the date of our last annual update in March of each year.

Pursuant to SEC requirements, we will provide a summary of any material changes to this and subsequent brochures on or before May 1 of each year. We may also provide ongoing disclosure about material changes as necessary.

You can obtain a copy of the brochure at any time, without charge, by contacting PAS at (888) 600-4667.

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#### ***4. Services, Fees and Compensation***

Park Avenue Securities LLC (“PAS”) sponsors the Park Avenue Separately Managed Account Select<sup>SM</sup> (“SMA Select”) and Park Avenue Unified Managed Account Select<sup>SM</sup> (“UMA Select”) Programs. SMA Select and UMA Select are wrap fee programs. Wrap fee programs bundle together several service providers - an investment adviser, a broker/dealer, a clearing firm and a custodian - and offer most of these services for a single advisory fee. There are no individual ticket charges assessed to the client for trades within a wrap fee program. Some clients prefer having the various services "packaged" together; others prefer to select their own providers for the various services needed to manage their investment portfolios. Similarly, some clients prefer a fee structure that converts trading costs into an asset-based fee calculated on the same basis as advisory fees; others prefer trading costs to be assessed on a per trade basis. Depending on a number of factors, such as the number of transactions, number of shares, and nature of the securities transactions in an advisory account, the overall fees and charges borne by the client over time could be more or less than what these fees and charges would be if the same services were provided on a separate basis. PAS Investment Adviser Representatives (“IARs”) are compensated for recommending, servicing and providing general investment advice for the Park Avenue SMA Select and UMA Select Programs; however, this compensation is not more than what a PAS IAR would receive for recommending another proprietary investment advisory program offered by PAS. PAS is also the sponsor of other wrap fee programs. You may obtain a copy of those wrap fee brochures by calling (888) 600-4667.

To invest in the SMA Select and/or UMA Select Programs you must establish an account(s) through PAS with Pershing LLC (“Pershing”), which clears trades and acts as custodian for your assets under the SMA Select and UMA Select Programs. Accordingly, all trading activity in connection with the Programs will be processed through your accounts with Pershing. In its capacity as a clearing and custodial firm Pershing performs centralized custody, bookkeeping and execution functions. Pershing handles the delivery and receipt of securities purchased or sold on your behalf, receives and distributes dividends and other distributions, and processes exchange offers, rights offerings, warrants, tender offers and redemptions. Pershing sends statements of all activity in clients’ accounts no less than quarterly.

Prior to funding a SMA Select or UMA Select Program account your IAR will help you complete an account application, a client questionnaire and/or other forms in order to determine your investment objectives and risk tolerance, also known as the Investor Risk Rating. The Investor Risk Rating is the level of risk a client is willing to take with their investments based upon questions asked within the client questionnaire. Your IAR will provide you with Investment Manager (as defined below) recommendations in the form of a proposal (“Proposal”) based on the information you provide. Your IAR will periodically review performance and other periodic

reports provided to you and will offer to meet with you at least annually to review your financial situation and investment objectives.

### **Park Avenue Separately Managed Account Select<sup>SM</sup> (SMA Select)**

The SMA Select Program is a discretionary investment advisory program sponsored by PAS that provides clients with access to the investment strategies of third-party investment managers and advisory firms referred to as Investment Managers that have been retained by Envestnet Asset Management, Inc. (“Envestnet”). Envestnet provides SMA Select Program clients with the ability to access one or more Investment Managers, either directly using a separately managed account for each Investment Manager where the Investment Manager trades directly for the account or indirectly through an investment strategy model created and maintained by the selected Investment Manager but administered by Envestnet. Based upon your investment objectives and Investor Risk Rating, your IAR will recommend Investment Manager(s) to fulfill your risk/return strategy. An SMA Select Program account may contain one or multiple Investment Managers strategies, but each will be held in a separate custodial account. If you select an Investment Manager or Managers which will manage your account in a way that deviates from your Investor Risk Rating, you may choose to link a separate PAS advisory account with the same registration, if available, to your SMA Select account to keep your overall Investor Risk Rating for all of your PAS accounts within the appropriate risk tolerance. You also grant Envestnet the authority to buy and sell securities and investments for the SMA Select account and to perform rebalancing or other such discretionary authorities you agree upon. Envestnet shall be authorized to delegate the investment discretion described above to the Investment Manager. Each Investment Manager is responsible for selecting the securities for your investment in the investment strategy of such Investment Manager, including the share class if the investment strategy contains mutual funds. You also grant PAS authority to open multiple custodial accounts based upon one account application for each Investment Manager strategy you choose. You have the ability to impose any reasonable restrictions on the management of your account. Envestnet and/or PAS may remove an Investment Manager from the list of approved Investment Managers at its discretion at which point you shall be notified and asked to move those account assets to a similar but approved Investment Manager. PAS may, at its sole discretion and upon prior written notice, convert your SMA Select Program account assets or a portion of those assets to a brokerage account, under the same name and title, if your SMA Select Program account assets remain with an unapproved Investment Manager.

### **Park Avenue Unified Managed Account Select<sup>SM</sup> (UMA Select)**

The UMA Select Program is a discretionary investment advisory program sponsored by PAS that provides clients with access to the investment strategies of third-party investment managers and advisory firms referred to as Investment Managers that have been retained by Envestnet. The UMA Select Program provides recommended asset allocation models developed by Envestnet

which consist of asset allocation targets or sleeves across various asset classes and investment strategies. Based upon your investment objectives and Investor Risk Rating, your IAR will recommend Investment Manager(s) who may invest in mutual funds, ETFs as well as individual stocks and bonds to fulfill your risk/return strategy. In addition to recommending Investment Manager(s), and to complete your risk/return strategy, Your PAS IAR may periodically recommend to you on a non-discretionary basis only, subject to your approval, in a manner consistent with your investment objectives and Investor Risk Rating, mutual funds, ETFs, as well as individual stocks and bonds. You will complete the UMA Select Program account by selecting which Investment Manager strategies to populate within each asset allocation sleeve. Envestnet administers the UMA Select Program by implementing the investment strategy model provided and maintained by Investment Manager (an "Investment Model"). A UMA Select Program account may contain one or multiple Investment Models investing in different asset classes according to the selected portfolio allocation strategy. You also grant Envestnet the authority to buy and sell securities and investments for the account pursuant to the direction of the Investment Manager and perform rebalancing or other such discretionary authorities you agree upon. In certain cases the Investment Manager may directly trade client assets within the UMA Select Program instead of providing an Investment Model. In those instances, Envestnet shall be authorized to delegate the investment discretion described above to the Investment Manager. The discretionary Investment Manager is responsible for selecting the securities for client investment, including the share class if the investment is in mutual funds. You have the ability to impose any reasonable restrictions on the management of your account. There are no transaction fees charged to you in the UMA Select Program. Envestnet and/or PAS may remove an Investment Manager from the list of approved Investment Managers at its discretion at which point you shall be notified and asked to move those account assets to a similar but approved Investment Manager. PAS may, at its sole discretion and upon prior written notice, convert your UMA Select Program account assets or a portion of those assets to a brokerage account, under the same name and title, if your UMA Select Program Account assets remains with an unapproved Investment Manager.

#### **Park Avenue SMA Select<sup>SM</sup> and Park Avenue UMA Select<sup>SM</sup> Fee Schedule**

Fees for SMA Select and UMA Select are negotiable by mutual agreement between you and PAS. Subject to negotiation and upon approval of PAS, the maximum annual client advisory fee is 3%. Please refer to the Statement of Investment Selection within the Proposal as well as the Investment Manager's Form ADV Part 2A for Investment Manager's fees, which are encompassed in the overall client fee. Fees do not include underlying expense ratios of any mutual funds and/or ETFs selected by an Investment Manager. These expense ratios may be found in the Model Portfolio Fact Sheet contained within the Proposal. In addition, IRA accounts will be assessed a \$95.00 termination fee upon account termination.

The advisory wrap fee is based on the average daily balance of assets in a client's account during the previous calendar quarter (or if the account is opened mid-quarter on a pro rata-basis) and is payable in advance for the following quarter. The fee is calculated at the end of each quarter and is debited from the account on the 10th business day of the following quarter. This advisory fee does not include any investment management or other fees and expenses charged by the ETFs and/or mutual funds in which account assets are invested all of which are fully disclosed in the ETF's and/or mutual fund's prospectus. If cash or cash-equivalent funds in your account are not sufficient to pay the fee or any of the other fees charged in connection with your account or transactions for your account, investments in your account may be liquidated in order to pay the outstanding fees. If your account is managed for only a portion of the quarter, the fee will be prorated accordingly.

The advisory fee does not include costs or charges associated with liquidation of a client's account and related charges, including but not limited to, express postage and handling charges, returned check charges, wire or transfer fees, transfer taxes or exchange fees or other fees mandated by law, or non-brokerage related fees such as Individual Retirement Account ("IRA") trustee or custodian fees and tax qualified retirement plan account fees.

Through an agreement with Pershing, PAS earns incentive payments from Pershing based upon the total number of assets under management in client accounts placed in Pershing's custodial platform. The receipt of such payments from Pershing may provide incentive for PAS to recommend PAS proprietary programs over third party advisory programs. Clients considering an investment in SMA Select or UMA Select should consider whether the potential receipt of these incentive payments results in a conflict of interest. PAS IARs do not receive any additional compensation for recommending PAS proprietary programs.

PAS has revenue sharing arrangements with American Funds, Fidelity Funds and Oppenheimer Funds. These revenue sharing arrangements are based on PAS' total assets under management with these organizations. Accepting this type of compensation may present a conflict of interest because PAS has an incentive to recommend these investment companies based on the compensation received, rather than client needs. PAS discloses potential conflicts of interests to clients through documents such as this disclosure document and other materials discussing the products and services offered. The client should consider these potential additional payments and the potential conflicts of interest they create carefully prior to investing in this program. In addition, IARs receive no additional compensation for recommending the funds sponsored by these organizations.

### **Non-Purpose Loans**

**Non-Purpose Loan Program** – You may apply for a non-purpose loan from Pershing LLC through the PAS Non-Purpose Loan Program using an eligible securities account as collateral.

These eligible securities accounts may include one or more of your PAS advisory program accounts. In order for SMA Select or UMA Select accounts to be eligible to serve as collateral for a non-purpose loan the account may not serve as collateral for any margin lending or reinvestment into any securities or insurance products.

Since your SMA Select or UMA Select account will be pledged to support any loans extended under the Non-Purpose Loan Program, you will not be permitted to withdraw any of the assets in the account unless there is a sufficient amount of collateral otherwise supporting the loans (as determined by PAS in its sole discretion).

If you participate in the Non-Purpose Loan Program, you will pay interest to Pershing LLC in addition to any SMA Select or UMA Select Program advisory fees charged.

Non-purpose loans are generally not recommended in advisory accounts. However, we may from time to time approve non-purpose loans on an exception basis when requested by a client.

You must meet certain eligibility requirements and complete loan documentation prior to applying for a non-purpose loan. Specifically, you will be required to execute loan documents with Pershing.

**The decision to use SMA Select or UMA Select assets as collateral rests with you and should only be made if you understand:**

- The risks of borrowing and the impact of the use of borrowed funds on advisory accounts
- How the use of loans may affect your ability to achieve investment objectives.
- You may lose more than your original investment.
- You may not benefit from collateralizing your account for a non-purpose loan in a SMA Select or UMA Select account if the performance of your account does not exceed the interest expense being charged on the loan plus the additional advisory fees incurred by your account as a result of the deposit of the loan proceeds.

Defaults

Non-Purpose loans are full recourse, demand loans and clients with non-purpose loan accounts may need to deposit additional cash or collateral or repay part or all of the loan if the value of the portfolio declines below the required loan-to-value ratio. We may demand repayment at any time.

Account statements display a total account value less any non-purpose loan held in your Account



Failure to promptly meet a request for additional collateral or repayment or other circumstances (e.g., a rapidly declining market) could cause us, in our discretion, to liquidate some or all of the collateral account or accounts to meet the loan requirements. Depending on market circumstances, the prices obtained for the securities may be less than favorable. Any required liquidations may disrupt your long-term investment strategies and may result in adverse tax consequences. PAS does not provide legal or tax advice. You should consult your legal and tax advisors regarding the legal and tax implications of borrowing and using securities as collateral for a loan. You are personally responsible for repaying the loan in full, even if the value of the collateral is insufficient.

Neither PAS nor our IARs will act as investment adviser to you with respect to the liquidation of securities held in a SMA Select or UMA Select account to meet a non-purpose loan demand. In addition, as a creditor PAS may have interests that are adverse to you. Additional limitations and availability may vary by state. Those liquidations will be executed in PAS' capacity as broker-dealer and creditor and may, as permitted by law, result in executions on a principal basis in your account.

**There are substantial risks associated with the use of borrowed funds for investment purpose and securities as collateral for a loan. For further information, please see the Credit Advance Disclosure Statement, which is available from your IAR.**

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

PAS provides investment advisory services to individuals, high net worth individuals, pension and profit-sharing plans, charitable organizations and corporations.

The programs minimum initial investment requirements are:

Park Avenue UMA Select - \$250,000

Park Avenue SMA Select - Subject to selected Investment Manager account minimums

Accounts that fall below the minimum balance are subject to closure by PAS, in its sole discretion. In addition, a client must maintain a minimum balance in one of the money market funds available within the program of an amount equal to 2% of the account balance as well as sufficient funds to cover check writing debits; otherwise, the account is subject to closure.

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

PAS IARs are responsible for assisting you in the selection of either a SMA Select Program or UMA Select Program, based on your investment objectives and Investor Risk Rating. In addition, PAS selects Investment Managers eligible for the program by utilizing due diligence provided by PMC, a subsidiary of Envestnet. PMC provides PAS an evaluation of the Investment Manager's

regulatory/compliance history, investment methodology, performance, corporate governance, risk control and other factors that will help PAS determine the Investment Manager's initial as well as ongoing eligibility for the program. Envestnet is compensated by Investment Managers on an ongoing basis once they have been approved to be on the platform. This may pose a conflict of interest. To address this conflict, PAS will review the PMC due diligence reports and if any relevant information is detected during the course of the due diligence reviews that may indicate concerns about an Investment Manager's eligibility, PAS may take the following actions, or any additional action not referenced below, which it may deem necessary:

- Placing an Investment Manager on a watch list.
- Restrict one or more Investment Manager(s) from being offered to new clients, or
- Remove one or more Investment Manager(s) from the program.

The level of the restriction will depend on various factors such the ability of the Investment Manager to address any concern in a timely manner.

The performance of the investment vehicles offered through the Park Avenue SMA Select and UMA Select Programs is determined based upon standard performance calculations used in the industry. Performance data is provided by Envestnet and sent to clients by PAS.

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

For the Park Avenue SMA Select and UMA Select Programs, a PAS IAR assists you in selecting the Investment Manager(s) suited to your investment objectives and Investor Risk Rating, as reflected by your client questionnaire and Statement of Investment Selection. You may impose any reasonable restrictions or modify any existing restrictions in a reasonable manner on the management of your accounts. Within UMA Select, the PAS IAR may also periodically provide investment advice or recommendations to you on a non-discretionary basis, regarding mutual funds, ETFs or individual stocks and bonds, subject to your approval and in a manner consistent with your investment objectives. Your information is not passed along to any mutual fund or ETF sponsors.

The Program you invest in is chosen by you, in consultation with your PAS IAR, and is based upon the agreed Investor Risk Rating. You will receive individual advice from your PAS IAR based upon the results of the client questionnaire.

In the UMA Select Program clients may choose an asset allocation that is either one allocation higher or lower on the Investor Risk Rating than the allocation indicated by the results of the client questionnaire and Statement of Investment Selection. Asset Allocation 1 would be considered the most conservative allocation choice and Asset Allocation 10, the most aggressive. To illustrate, it is generally thought that a conservative type of account is one comprised primarily of fixed income

securities. If a fixed income security is held to maturity, the investor receives payment of the coupon (principal) amount. Fixed income securities, of course, have risks related to interest rate movements, and other risks. On the other end of the scale, it is thought that the riskiest type of account (depending upon security selections) would be an account comprised primarily of equity securities (subject to market risks).

There is no guarantee that the objectives of any portfolio will be realized. In addition, a client may lose money by having their assets managed in accordance with any portfolio or strategy offered through the Park Avenue SMA Select or UMA Select Programs.

PAS believes investors are best served by constructing well diversified portfolios that are consistent with their risk tolerance and return goals. Therefore, our process begins with identifying the Investor Risk Rating for each client. The Investor Risk Rating is calculated based upon your answers to the Client Questionnaire. The Investor Risk Rating will be used to map to a risk based strategic asset allocation strategy. The base strategic asset allocation strategy will be outlined on the Statement of Investment Selection. The base strategic asset allocation policies are designed around exposures to the broad asset classes such as stocks and bonds.

If you choose to invest your assets in a Park Avenue SMA Select or UMA Select Program, you will sign a client agreement, which consists of the Statement of Investment Selection and Terms and Conditions (the "Client Agreement"), which will detail all of the important terms and conditions pertaining to your account, including the management fee. You are encouraged to read all of the terms of the Client Agreement. Either party may terminate the Client Agreement upon 30 days written notice to the other. Pursuant to the Client Agreement, you direct PAS to invest your funds in the account in accordance with your Statement of Investment Selection and the strategy chosen by you. It should be noted that the securities utilized to implement the strategic asset allocation policy will depend on the specific advisory program selected by the client and their IAR.

The IAR will periodically review performance and other periodic reports provided to you and will offer to meet with you at least annually to review your financial situation and investment objectives. Additionally, you are required to notify PAS or your IAR of any material changes to your financial situation.

### **Risk of Loss**

Investing in securities involves risk of loss that clients should be prepared to bear. Clients may experience loss in the value of their account due to market fluctuations. There is no guarantee that a client's investment objectives will be achieved by participating in any of the programs described in this brochure. Prior to investing, clients should read carefully a copy of the current prospectus for each security, where a prospectus is available, or other offering documents associated with the particular investment. The prospectus or offering documents contains information regarding the

fees, expenses, investment objectives, investment techniques, and risks of each particular investment. The investment returns on a client account will vary and there is no guarantee of positive results or protection against loss. No warranties or representations are made by PAS or IARs concerning the benefits of participating in the programs described in this brochure.

PAS and IARs do not provide legal or tax advice. Clients with tax or legal questions should seek a qualified independent expert.

Depending on the types of securities you invest in, you may be subject to the following investment risks; note that the list below is not intended as a complete list of all potential investment risks.

*Interest-rate Risk:* Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline.

*Market Risk:* The price of a security, bond or mutual fund may drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's particular underlying circumstances. For example, political, economic and social conditions may trigger market risks.

*Inflation Risk:* When any type of inflation is present, a dollar today will not buy as much as a dollar next year, because purchasing power is eroding at the rate of inflation.

*Currency Risk:* Overseas investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This is also referred to as exchange rate risk.

*Reinvestment Risk:* This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e., interest rate). This primarily relates to fixed income securities.

*Business Risk:* These risks are associated with a particular industry or a particular company within an industry. For example, oil-drilling companies depend on discoveries of oil and then refining it, a lengthy process, before they can generate a profit. These companies carry a higher risk of profitability than an electric company, which generates its income from a steady stream of customers who buy electricity no matter what the economic environment is like.

*Financial Risk:* Excessive borrowing to finance a business' operations increases the risk of loss if the company is unable to meet the terms of its loan obligations. During periods of financial stress, the inability to meet loan obligations may result in bankruptcy and/or a declining market value.

*Liquidity Risk:* When consistent with a client's investment objectives, guidelines, restrictions and risk tolerances, client portfolios may be invested in illiquid securities, subject to applicable investment standards. Investing in an illiquid (i.e., difficult to trade) security may restrict the ability to dispose of investments in a timely fashion or at an advantageous price, which may limit the ability to take full advantage of market opportunities. Accounts may hold securities which are partnerships. Some partnerships are relatively liquid and may be either exchange listed or traded over-the-counter. However, most partnership securities are often illiquid and are subject to significantly less regulation than public investments.

*Fixed Income Risks:* Portfolios that invest in bonds and other fixed income securities are subject to certain risks, including but not limited to, interest rate risk, credit risk, prepayment risk and market risk, which could reduce the yield that an investor receives from his or her portfolio.

*Foreign and Emerging Markets Risk:* Investments in securities of foreign and emerging markets issuers involve different investment risks than those affecting obligations of U.S. issuers. Public information may be limited with respect to foreign and emerging markets issuers, and they may not be subject to uniform accounting, auditing and financial standards and requirements comparable to those applicable to U.S. companies. Additional risks include future political and economic developments, the possibility that a foreign jurisdiction might impose or charge withholding taxes on income payable with respect to foreign and emerging markets securities, and the possible adoption of foreign governmental restrictions such as exchange controls. In addition, foreign currency exchange rates may affect the value of securities in the portfolio.

*High-yield Bond Risk:* Investments in high-yielding, non-investment grade bonds involve higher risk than investment grade bonds. Adverse conditions may affect the issuer's ability to make timely interest and principal payments on these securities.

*Structured Products Risk:* These products often involve a significant amount of risk and should only be offered to clients who have carefully read and considered the product's offering documents, as their structure may be based on derivatives or other types of securities, which may be volatile. Structured products are intended to be “buy and hold” investments and are not liquid instruments.

*Derivatives Risk:* Derivatives are securities whose price is dependent upon or derived from one or more underlying assets. The derivative itself is a contract between two or more parties. Its value is determined by fluctuations in the underlying asset. Derivatives may involve significant risks and are not suitable for everyone. Derivatives trading can be speculative in nature and carry substantial risk of loss, including the loss of principal.

*Small/Mid Cap Risk:* Stocks of small or mid-sized, emerging companies may have less liquidity than those of larger, established companies and may be subject to greater price volatility and risk than the overall stock market.

*Diversification Risk:* Investments that are concentrated in one or few industries or sectors may involve more risk than more diversified investments, including the potential for greater volatility.

*Security Selection and Asset Allocation Risk:* Securities selected from a particular asset class (e.g., stocks, bonds, money market instruments) may experience unusual market volatility or may not perform as expected. An asset allocation program does not guarantee achievement of a client's investment objective nor protect against loss.

*ETF Risk:* ETFs are subject to the following risks: (i) the market price of an ETF's shares may trade above or below the net asset value; (ii) there may be an inactive trading market for an ETF; (iii) the ETF may employ an investment strategy that utilizes high leverage ratios; (iv) trading of an ETF's shares may be halted, delisted, or suspended on the listing exchange; and (v) the ETF may fail to achieve close correlation with the index that it tracks.

*Real Estate Risk:* Investment in real estate and real estate related assets is subject to the risk of adverse changes in national, state or local real estate conditions (resulting from, for example, oversupply of or reduced demand for space and changes in market rental rates); obsolescence of properties; changes in the availability, cost and terms of mortgage funds; and the impact of tax, environmental and other laws.

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

There are no restrictions placed on clients' ability to contact and consult with PAS regarding the Park Avenue SMA Select or UMA Select Program.

## **9. *Additional Information***

### *Disciplinary Information*

The following is a chronological summary of material disciplinary events relating to PAS and its management personnel in the last 10 years.

06/10/2009 – In an Order to Show Cause (the “Order”), the Alabama Securities Commission alleged that PAS failed to reasonably supervise one of its registered representatives in Alabama in that the business activity performed under his “doing business as” license (“DBA”), which was listed as a branch office of PAS, required proper registration of the representative in Alabama as an investment adviser representative and investment advisor. At an informal meeting with the staff of the Alabama Securities Commission on September 30, 2009, the Commission staff indicated that it would consider revising the Order in light of information provided by PAS showing that it did not fail to supervise the representative. The matter is still pending.

10/16/2009 – The Financial Industry Regulatory Authority (“FINRA”) initiated a regulatory action relating to the firm's form filings with CRD, including amendments to forms U4 and U5 with disclosure reporting pages. FINRA found that some of the form U4 and U5 amendments with disclosure reporting pages filed by PAS were filed late as measured from 30 days after the firm knew or should have known of the event triggering a disclosure obligation. FINRA alleged that the firm failed to enforce its written supervisory procedures relating to its direct mutual fund and 529 plan businesses in that certain of its required forms for purposes of switching and breakpoints were not utilized. PAS consented to a censure and monetary fine of \$25,000 pursuant to an Acceptance, Waiver and Consent.

11/18/2011 - FINRA censured and fined PAS, in its capacity as a broker-dealer, \$175,000 for failing to: (1) adequately investigate certain registered representatives' involvement with a Ponzi scheme; (2) adequately investigate allegations made by two registered representatives that a member of the firm's supervisory staff had suggested that the two registered representatives destroy documents and provide misleading information in connection with PAS' internal investigation; and (3) establish an adequate supervisory system for reviewing certain emails.

### *Other Financial Industry Activities and Affiliations*

PAS may recommend to clients mutual funds that are managed by investment adviser affiliates of PAS. PAS is a direct wholly-owned subsidiary of The Guardian Insurance & Annuity Company, Inc. (“GIAC”), a Delaware insurance company, and is an indirect wholly-owned subsidiary of The Guardian Life Insurance Company of America (“GLIC”), a New York mutual life insurance company. PAS may purchase for its accounts mutual funds whose investment adviser is a PAS affiliate, such as RS Investment Management Co. LLC (“RS”) or Guardian Investor Services LLC (“GIS”). GIS, a Delaware limited liability company, is a wholly-owned subsidiary of GLIC. RS, a Delaware limited liability company, is majority owned by GIS. GLIC also wholly owns LEIM, LLC, a Delaware limited liability company that owns 50% of Lowe Enterprises Investment Management, LLC (“Lowe”), a Delaware limited liability company. GIS, RS and Lowe are registered investment advisers. GIS is also registered as a broker-dealer. RS or GIS may earn mutual fund management fees,

Many IARs of PAS are also agents of GLIC and GIAC and may sell a wide range of products issued by those entities, such as life insurance and variable annuities. Some IARs may also sell the RS family of mutual funds. IARs receive no additional compensation for recommending insurance products or mutual funds managed by affiliates.

### *Code of Ethics, Participation or Interest in Client Transactions and Personal Trading*

PAS has adopted a code of ethics (“Code of Ethics”) for all supervised persons of the firm, which governs the ethical standards of conduct and securities trading by supervised persons. The Code of Ethics includes provisions relating to, among other things, a prohibition on trading on the basis of material non-public information or confidential information, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures. All supervised persons of PAS must acknowledge the terms of the Code of Ethics annually. PAS will provide a copy of the Code of Ethics to any client or prospective client upon request.

It is PAS policy that the firm will not affect any principal or agency cross transactions for client accounts. PAS will not permit cross trades between client accounts. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client. An agency cross transaction is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the advisory client and for another person on the other side of the transaction. Agency cross transactions may arise where an adviser is dually registered as a broker-dealer or has an affiliated broker-dealer.

### *Review of Accounts*

PAS, through its IARs, gathers information from a client about that client's financial situation, risk tolerance, investment objectives and any reasonable restrictions that the client wishes to impose upon the management of the account. Each IAR periodically reviews reports and otherwise consults with the client, and contacts the client at least annually to review the client's financial situation and investment objectives. You should notify your IAR of any changes in your financial situation, risk tolerance, investment objectives or account restrictions.

PAS employs individuals who are registered with the Financial Industry Regulatory Authority ("FINRA") as principals (the "Registered Principals"), who review all PAS proprietary program accounts for suitability. Accounts are reviewed by the Registered Principals prior to being opened. Accounts are monitored on an ongoing basis by Registered Principals.

### *Client Referrals and Other Compensation*

PAS and/or its IARs may receive compensation pursuant to cash solicitation agreements for introducing clients to the non-affiliated investment advisers and for providing certain ongoing services. This compensation is typically equal to a percentage of the investment advisory fee charged by that investment adviser. Because IARs receive compensation from these investment advisers for referring clients and because such compensation may differ depending on the individual agreement with each investment adviser, the IAR may have an incentive to recommend one of these non-affiliated investment advisers over the other non-affiliated investment managers with which PAS has a less favorable compensation arrangement or alternative investment advisory programs. Full disclosure of all cash solicitation arrangements, including Part 2 of Form ADV and a solicitor's disclosure statement, will be given to the client at the time of solicitation in accordance with Rule 206(4)-3 under the Investment Advisers Act of 1940.

### **Directed Brokerage**

Clients in a PAS Proprietary Program must establish an account through PAS with Pershing, which clears trades and acts as custodian for clients' assets under the PAS Proprietary Programs. Accordingly, all trading activity in connection with the PAS Proprietary Programs will be processed through clients' accounts with Pershing. Pershing acts in the capacity of a clearing firm and performs centralized custody, bookkeeping and execution functions. Pershing handles the delivery and receipt of securities purchased or sold on behalf of PAS' clients who are part of a PAS Proprietary Program, receives and distributes dividends and other distributions, and processes exchange offers, rights offerings, warrants, tender offers and redemptions. Although PAS negotiates the fee paid to Pershing for these services, PAS does not receive any special incentives for directing brokerage to Pershing.



## **Best Execution**

Investment advisers are obligated to provide “best execution” of customer orders. “Best execution” refers to using reasonable diligence to obtain the best price to buy or sell a security under prevailing market conditions. For PAS Proprietary Programs, all trade orders are executed through Pershing, the custodian for the programs. PAS does not select other broker-dealers for processing of client transactions. Envestnet Asset Management, Inc. must transmit all trades to Pershing for execution. PAS receives reports from Pershing, which contain information regarding the trade order execution experience of Pershing for all of its customers. PAS undertakes an ongoing review of its relationship with Pershing, including a quarterly review of trade order flows.

## **Soft Dollars**

Soft dollars are defined as arrangements under which products or services other than the execution of securities transactions are obtained by an adviser from or through a broker-dealer in exchange for the direction of securities trades to the broker-dealer. PAS does not have any soft dollar arrangements.

## **Order Aggregation**

Although each account is individually managed, we may buy and sell the same securities for many advisory accounts simultaneously when applicable. We may aggregate a transaction in the same security for many clients for whom we have discretion to trade. Your IAR may also aggregate his or her own trade in the same security with those of his or her clients, provided that the IAR never receives preferential treatment in the trade execution.

If different prices are paid for securities in an aggregated transaction, each client in the transaction will typically receive the average price paid for the block of securities in the same aggregated transaction. If the client trade is aggregated with other client accounts and are executed at the same price, the client will receive the same price per unit. If we are not able to completely fill an aggregated transaction, we will normally allocate the filled portion of the transaction to our clients on a pro-rata basis.

## **Potential Conflict of Interest**

Envestnet’s CEO, Judson Bergman, is a Trustee for mutual fund managed by RS Investment Management Co. LLC, an investment adviser affiliate of PASs. The RS Emerging Markets Fund (GBEMX) is an approved mutual fund on the Envestnet platform. Investments in the GBEMX made through the Envestnet platform may present a conflict of interest.

## *Financial Information*

PAS does not have any financial condition that is reasonably likely to impair its ability to meet its contractual commitments to clients. PAS has never been the subject of a bankruptcy petition.