

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 your LPL financial advisor or 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 last annual update of this Brochure dated March 31, 2014. The following is a summary of certain changes made to this Brochure from the time of the annual update of the Brochure dated March 31, 2013 until the most recent annual update dated March 31, 2014. The following also includes a summary of certain changes made to the Brochure since the last annual update dated March 31, 2014. The Brochure was updated to include LPL's new San Diego address of 4707 Executive Drive, San Diego, California 92121-3091. Item 9 was updated to provide information regarding four disciplinary events involving LPL, one related to LPL's systems and procedures to review and retain emails, one related to aspects of LPL's processing and supervision of the sale of alternative investments, including non-traded real estate investment trusts, one related to the books and records of certain variable annuity exchange transactions, and one related to improper conduct by an LPL investor advisor representative. Item 9 also was updated to include more information about compensation that LPL may provide to its investment advisor representatives and to financial institutions, such as banks and credit unions, whose premises certain investment advisor representatives may be located, revenue sharing payments that LPL receives from sponsors of mutual funds that are available in the program, and the typical handling of trade errors in accounts by LPL.

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ITEM 4 SERVICES, FEES AND COMPENSATION

Services
LPL offers various types of advisory services and programs, including wrap fee programs, mutual fund asset allocation programs, advisory programs offered by third party investment advisor firms, financial planning services, and retirement plan consulting services. This Brochure provides a description of the advisory services offered under LPL's Strategic Asset Management ("SAM")



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program. For more information about LPL's advisory services and programs other than SAM, please contact your LPL investment advisor representative ("IAR") for a copy of a similar brochure that describes such service or program or go to [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

LPL is also a broker-dealer registered with the Financial Industry Regulatory Authority ("FINRA"), and an IAR also may be registered with LPL as a broker-dealer registered representative. Therefore, an IAR may be able to offer a client both investment advisory and brokerage services. Before engaging with an IAR, clients should take time to consider the differences between an advisory relationship and a brokerage relationship to determine which type of service best serves the client's investment needs and goals. Clients should speak to the IAR to understand the different types of services available through LPL. Clients also should refer to the informational brochure on [www.lpl.com](http://www.lpl.com) titled "Working with an LPL Financial Advisor: The Choice Between Advisory Services and Brokerage Services."

In the SAM program, LPL, through its investment advisor representatives or IARs, provides ongoing investment advice and management on assets in the client's account. IARs provide advice on the purchase and sale of various types of investments, such as mutual funds, exchange-traded funds ("ETFs"), variable annuity subaccounts, business development companies ("BDCs"), real estate investment trusts ("REITs"), equities, and fixed income securities. IARs provide 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. The SAM program also permits clients to select a third party investment advisor firm associated with an LPL registered representative, in lieu of an IAR, to provide the advisory services described in this brochure.

LPL also acts as custodian to accounts, 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 its IARs an annual account fee ("Account Fee") for advisory services. The Account Fee is negotiable between the client and the IAR 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 also may be structured on a tiered basis, with a reduced percentage rate based on reaching certain thresholds. The maximum Account Fee is 2.50%. The Account Fee is paid to LPL and is shared between LPL and the IAR. The Account Fee is paid to LPL, and LPL retains up to 0.20% for its administrative services. LPL shares between 90% and 100% of the remaining portion of the Account Fee with the IAR based on the agreement between LPL and the IAR.

### 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 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 reserves 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 pays a commission for each transaction, and LPL and the IAR have no responsibility to provide ongoing investment advice.



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### 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 brokerage commissions to IAR for transactions in the account; however, the client pays LPL 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 (e.g., \$9 for equities, \$50 for fixed income). The transaction charges are paid to LPL to defray costs associated with trade execution; however, they are not directly related to transaction-related expenses of LPL and are a source of revenue to LPL. Transaction charges are not shared with IARs. In the case of mutual funds, the transaction charges vary depending on whether LPL receives and retains compensation from the mutual fund for services it provides to the fund, such as recordkeeping fees and asset-based service fees or sales charges. LPL uses that compensation from mutual funds to reduce its trading costs, and therefore, assesses a lower transaction charge to clients. Mutual fund transaction charges range from \$0 to \$26.50. 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, managed futures, BDCs, and REITs 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. 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. In the case of mutual funds that are fund of funds, there could be an additional layer of fees, including performance fees that may vary depending on the performance of the fund. Client will also pay LPL and IAR 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 and IAR 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 an ERISA plan or an account otherwise subject to Section 4975 of the Internal Revenue Code (e.g., an individual retirement account or IRA). 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; however, many funds waive such eligibility criteria for advisory programs like SAM. LPL may share a portion of the 12b-1 fees with IARs to reduce LPL's administrative fee for non-retirement accounts. The receipt of 12b-1 fees presents a conflict of interest because it gives LPL and its IARs 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 conflict for non-retirement accounts in SAM by



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disclosure and by using the fees it receives from mutual funds to reduce its trading costs, and therefore, assesses a lower transaction charge to clients. For retirement accounts, 12b-1 fees paid to LPL by mutual funds held in the account are credited to the account.

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. If a client holds a REIT or BDC as part of an account, there are dealer management fees and other organizational, offering and pricing expenses imposed by the REIT or BDC, as applicable. 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, REIT, BDC or UIT is available in the appropriate prospectus or offering document, which is available upon request from the IAR or from the product sponsor directly.

When transferring securities into an account, client should be aware that certain securities may not be eligible for the account. In such case, the securities may be rejected, sold after the transfer, or moved to a brokerage account. Note that when an ineligible security is transferred into an account and subsequently sold or moved to a brokerage account, the advisory fee will be charged on such asset for the period of time the security was held in the account. Client should be aware that securities transferred into an account may have been subject to a commission or sales load when the security was originally purchased. After transfer into an account, client should understand that an advisory fee will be charged based on the total assets in the account, including the transferred security. When transferring securities into an account, client should consider and speak to IAR about whether:

- a commission was previously paid on the security;
- client wishes for the security to be managed as part of the account and be subject to an advisory fee; or
- client wishes to hold the security in a brokerage account that is not managed and not subject to an advisory fee.

### Understanding Share Classes in SAM Accounts

In many instances, LPL makes available mutual funds in a SAM account that offer various classes of shares, including shares designated as Class A Shares and Class I Shares. In other instances, a mutual fund may offer only Class A Shares, but another similar mutual fund may be available that offers Class I Shares. When a non-retirement account purchases Class A Shares, LPL receives from the mutual fund 12b-1 fees charged by the mutual fund and shares some of those fees with IARs. Class I Shares generally are not subject to 12b-1 fees. As a result of the different expenses of the mutual fund share classes, it is generally more expensive for a client to own Class A Shares than Class I Shares. Because LPL and IAR earn additional revenue in connection with the purchase of Class A Shares in a non-retirement Account, LPL and IAR have a financial incentive to recommend Class A Shares for a non-retirement account even though Class I Shares may be available in the same or a comparable mutual fund.

LPL charges clients a transaction charge for mutual fund purchases and sales. The transaction charge level (\$0, \$4.50 or \$26.50) varies depending on the amount of 12b-1 fees and/or subtransfer agent recordkeeping fees that LPL receives from the mutual fund. Clients generally do not pay a transaction charge for Class A Share mutual fund transactions in non-retirement accounts, but generally do pay transaction charges for Class I Share mutual fund transactions. Clients may avoid or lower the transaction charge by purchasing a Class A Share mutual fund in a non-retirement account, however the share class may be more expensive to the client over time because of the ongoing 12b-1 fee depending on the number of transactions in the account and the holding period. Clients may pay a higher transaction charge for a Class I Share, however, the share class may be less expensive to the client over time.

Both the increased revenue to LPL and IAR from Class A Share purchases, together with the fact that Class I Shares are less expensive for clients to own in certain cases, present a conflict of interest between LPL/IAR and clients for non-retirement accounts. Clients should understand this conflict and consider the additional indirect expenses borne as a result of the mutual fund fees when negotiating and discussing with your IAR the Account Fee and the selection of share classes and mutual funds for an account.



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## 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 IAR commissions on transactions but do pay LPL transaction charges. The Account Fee and transaction charges 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. In a brokerage account, a client pays the brokerage representative 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 Account Fee may be higher than the fees charged by other investment advisors for similar services. This is the case in particular if the Account Fee is at or near the maximum Account Fee set out above. The IAR 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 account (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 IAR.
- The IAR 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 types of compensation, such as bonuses, awards or other things of value offered by LPL to the IAR. LPL pays IARs this compensation based on the IAR's overall business production and/or on the amount of assets serviced in LPL advisory programs. Therefore, the amount of this compensation may be more than what the IAR would receive if the client participated in other LPL programs, programs of other investment advisors or paid separately for investment advice, brokerage and other client services. Therefore, the IAR may have a financial incentive to recommend 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 LPL.

## 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 Employee Retirement Income Security Act of 1974 ("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 does not select, review or recommend other investment advisors or portfolio managers. LPL through its IARs is responsible for the investment advice and management offered to clients, and the client selects the IAR who manages the account. LPL generally requires that individuals involved in determining or giving investment advice have at least two years financial planning, advisory or brokerage-related experience. Each IAR is also generally required to possess a FINRA Series 6, 7, 65, or 66 license (as required). For more information about the IAR managing the account, client should refer to the Brochure Supplement for the IAR, which client should have received along with this Brochure at the time client opened the account.



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LPL does not calculate the performance record of IARs, however, LPL does calculate performance for each 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 LPL through its IARs 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 IAR pays LPL the transaction charges. In LPL's separately managed account wrap program, Manager Select, a third party portfolio manager provides discretionary advisory services. In LPL's mutual fund asset allocation programs, such as Optimum Market Portfolios and Model Wealth Portfolios, LPL (and not its IARs) is responsible for the discretionary advisory services. LPL and its IARs do not accept performance-based fees under any LPL advisory programs.

### Investment Discretion

In SAM, the IAR provides advisory services on a discretionary basis for the purchase and sale of mutual funds, UITs, closed-end funds, ETFs, and variable annuity subaccounts. The IAR provides advisory services on a non-discretionary basis for all other types of securities approved by LPL for investment in the account. In some cases, the client may provide discretionary authorization to the IAR for equities, fixed income securities and options. Alternatively, the client may elect that the IAR manage the account on a non-discretionary basis, so that the client directs the purchase and sale of securities in the account. The client authorizes the IAR to have discretion by executing the Account Agreement and Application.

### Methods of Analysis and Investment Strategies

Each IAR managing a SAM account chooses his/her own research methods, investment strategy and management philosophy. It is important to note that no methodology or investment strategy is guaranteed to be successful or profitable. The IAR has 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.

LPL's Research Department makes recommendations regarding asset allocation, mutual funds, variable annuity subaccounts, and ETFs. 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 recommendations. 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 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





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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, an IAR may take into consideration these recommendations and strategies to a limited extent or not at all. Clients should contact the IAR managing his/her accounts for additional information on the IAR's particular investment strategy. It is also important to note that an IAR may use a combination of investment strategies.

### Types of Investments and Risks

In SAM, IARs can recommend many different types of securities, including mutual funds, unit investment trusts ("UITs"), closed end funds, ETFs, variable annuity subaccounts, equities, fixed income securities, options, hedge funds, managed futures, BDCs, and structured products. LPL determines 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 risks associated with investing and with some types of investments that are available in the program.

- *Market Risk.* This is the risk that the value of securities owned by an investor may go up or down, sometimes rapidly or unpredictably, due to factors affecting securities markets generally or particular industries.
- *Interest Rate Risk.* This is the risk that fixed income securities will decline in value because of an increase in interest rates; a bond or a fixed income fund with a longer duration will be more sensitive to changes in interest rates than a bond or bond fund with a shorter duration.
- *Credit Risk.* This is the risk that an investor could lose money if the issuer or guarantor of a fixed income security is unable or unwilling to meet its financial obligations.
- *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. These types of funds tend to have higher



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expense ratios than more traditional mutual funds. They also tend to be newer and have less of a track record or performance history.

- *Closed-End Funds.* Client should be aware that closed-end funds available within the program may not be readily marketable. In an effort to provide investor liquidity, the funds may offer to repurchase a certain percentage of shares at net asset value on a periodic basis. Thus, clients may be unable to liquidate all or a portion of their shares in these types of funds.
- *Exchange-Traded Funds (ETFs).* ETFs are typically investment companies that are legally classified as open end mutual funds or UITs. However, they differ from traditional mutual funds, in particular, in that ETF shares are listed on a securities exchange. Shares can be bought and sold throughout the trading day like shares of other publicly-traded companies. ETF shares may trade at a discount or premium to their net asset value. This difference between the bid price and the ask price is often referred to as the "spread." The spread varies over time based on the ETF's trading volume and market liquidity, and is generally lower if the ETF has a lot of trading volume and market liquidity and higher if the ETF has little trading volume and market liquidity. Although many ETFs are registered as an investment company under the Investment Company Act of 1940 like traditional mutual funds, some ETFs, in particular those that invest in commodities, are not registered as an investment company. ETFs may be closed and liquidated at the discretion of the issuing 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. ETNs may be closed and liquidated at the discretion of the issuing company.
- *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.





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- *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.
- *Business Development Companies (BDCs).* BDCs are typically closed-end investment companies. Some BDCs primarily invest in the corporate debt and equity of private companies and may offer attractive yields generated through high credit risk exposures amplified through leverage. As with other high-yield investments, such as floating-rate/leveraged loan funds, private REITs and limited partnerships, investors are exposed to significant market, credit and liquidity risks. In addition, fueled by the availability of low-cost financing, BDCs run the risk of over-leveraging their relatively illiquid portfolios. Due to the illiquid nature of non-traded BDCs, investors' exit opportunities may be limited only to periodic share repurchases by the BDC at high discounts.
- *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, Managed Futures and REITs.* Hedge funds, managed futures funds and REITs are available for purchase in the program by clients meeting certain qualification standards. Investing in these securities 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 securities may not be 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 securities may not be liquid as there is no secondary trading market available. At the absolute discretion of the issuer of the security, there may be certain repurchase offers made from time to time. However, there is no guarantee that client will be able to redeem the security 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.



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- *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 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 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 IAR obtains the necessary financial data from the client and assists the client in setting an appropriate investment objective for the account. The IAR obtains this information by having the client complete an Account Application which is a part of the Account Agreement. In quarterly communications, LPL asks clients to contact the IAR 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 IARs.

### ITEM 9 ADDITIONAL INFORMATION

#### Disciplinary Information

As an investment advisor and broker-dealer regulated by the SEC, LPL was found by the SEC to have 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).

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 March of 2014, a Letter of Acceptance, Waiver and Consent was accepted by FINRA in connection with aspects of LPL's processing and supervision of the sale of alternative investments, including non-traded real estate investment trusts. LPL agreed to a censure and fine of \$950,000. In addition, LPL consented to sanctions related to the following matters:

- LPL, without admitting or denying the findings, agreed to a settlement in connection with FINRA's findings that, among other things, LPL had failed to establish and maintain adequate systems and procedures that were reasonably designed to comply with its obligation to review and retain email. LPL agreed to a censure, fine of \$7.5 million, and establishment of a fund of \$1.5 million to cover payments to eligible former brokerage customer claimants who may not have received all emails in connection with their claim (2013).
- LPL's supervisory systems to monitor and ensure the timely delivery of mutual fund prospectuses, resulting in a censure and fine of \$400,000 (2012).
- LPL's procedures regarding its review of e-mail communications, resulting in a censure and fine of \$100,000 (2011).



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- 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).

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. In October 2014, LPL, without admitting or denying the findings, submitted to a consent order with the Illinois Securities Department in connection with findings that LPL failed to detect improper and fraudulent conduct by one of its IARs. LPL agreed to a censure, fine of \$500,000, and restitution to impacted customers. In June 2014, LPL submitted to a consent order with the Illinois Securities Department in connection with certain variable annuity exchange transactions, in particular, relating to its failure to adequately enforce supervisory procedures and maintain certain books and records required under Illinois law. LPL agreed to a censure, fine of \$2,000,000, and restitution to impacted customers. In 2013, LPL submitted to a consent order with the Massachusetts Securities Division in connection with the sale of non-traded real estate investment trusts to Massachusetts residents in excess of Massachusetts concentration limits. LPL agreed to a censure, fine of \$500,000, and restitution to impacted customers. 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 50 states and has primarily an independent-contractor sales force of registered representatives and IARs dispersed throughout the United States. LPL has a small number of employee IARs whose services are limited to servicing certain small IRA accounts. IARs are registered representatives of LPL. If required for their positions with a registered broker-dealer, LPL's principal executive officers are securities licensed as registered representatives of LPL. LPL is also registered as a transfer agent with the SEC and as an introducing broker 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, N.A. ("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.

LPL has an arrangement with Fortigent, LLC ("Fortigent"), a registered investment advisor and related person of LPL. LPL has retained Fortigent to provide model portfolios as a portfolio strategist on LPL's Model Wealth Portfolios program. In addition, LPL and Fortigent have entered into an agreement for LPL to provide overlay portfolio management services to Fortigent clients in Fortigent's Access Overlay II Program.



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### 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 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

From time to time, a purchase of mutual fund shares may be processed through the firm's proprietary account resulting in the purchase being characterized as a principal transaction for certain reporting purposes. In such case, the shares will be purchased at the fund's net asset value, and no additional charges will be applied to such transactions as a result of the firm's use of a proprietary account. LPL does not otherwise engage in principal transactions with its clients in the program. LPL's parent company, LPL Financial Holdings Inc., is a publicly traded company. LPL does not permit its IARs to recommend or solicit orders of LPL Financial Holdings Inc. stock 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 its IARs. Therefore, there is no financial incentive for an 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. LPL uses the recordkeeping fees it receives to reduce its trading costs, and therefore, assesses a lower transaction charge to clients for mutual funds. LPL does not share this compensation with its IARs.

LPL has fee arrangements with investment advisors or distributors ("sponsors") of mutual funds and ETFs that are available for purchase through the Program, called revenue sharing. Under these arrangements, the sponsor pays LPL a fee based on the amount of client sales or assets invested in the sponsor's funds or a fixed fee, and LPL provides marketing support to the sponsor and allows the sponsor to access LPL IARs so that the sponsor can promote such mutual funds and/or ETFs. The maximum fee received by LPL under these arrangements is 0.15%. LPL does not accept these fee payments for assets held in retirement accounts. For a complete list of the participating sponsors, please visit [www.lpl.com](http://www.lpl.com), click on Disclosure and then Legal Disclosures.

This type of fee arrangement gives LPL a financial incentive to have LPL clients invest in participating mutual funds instead of funds whose sponsors do not make such payments to LPL. This conflict of interest affects the ability of LPL to provide clients with unbiased, objective investment advice concerning the selection of mutual funds for an account. This could mean that other mutual funds, whose sponsors do not make revenue sharing payments, may be more appropriate for an account than the mutual funds whose sponsors make revenue sharing payments to LPL.



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LPL does not share revenue sharing payments with IARs, and therefore, there is no financial incentive for an IAR to select a participating fund for an account over another fund because of this fee arrangement. However, LPL and its affiliates may make recommendations of mutual funds, which recommendations can be implemented by IARs in an account. LPL does not require that a mutual fund participate in these fee arrangements in order for a fund to be recommended. LPL intends to make all recommendations independent of such fee arrangements.

LPL makes available programs for cash in an account to be automatically swept to a money market fund or an interest-bearing Federal Deposit Insurance Corporation ("FDIC")-insured deposit account. For more information about which types of accounts are eligible to use the different sweep options, please speak to your IAR.

For accounts that are set up for cash to sweep to a money market fund -- the available sweep money market funds typically pay higher 12b-1 fees than other money market funds. In addition, LPL receives compensation of up to 0.35% of the LPL client assets invested in the sweep money market funds for recordkeeping services it provides for the funds. LPL also receives up to 0.15% of the LPL client assets invested in the sweep money market funds in connection with marketing support services LPL provides to the money market fund sponsors.

For accounts that sweep cash to the multi-bank insured cash account program offered by LPL (the "ICA") -- LPL receives a fee equal to a percentage of the average daily deposit balance in the ICA. The fee paid to LPL may be at an annual rate of up to an average of 200 basis points as applied across all ICA 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 with respect to the ICA may be higher than if a client invests in other sweep investment options.

LPL also makes available single-bank insured cash account programs. The banks sponsoring such programs may have an agreement with LPL for LPL IARs to offer advisory services on their premises. In the case of these single-bank programs, LPL may receive a fee from the bank of up to 0.50% of the LPL client assets deposited at the bank under the program for its sweep processing services. For additional information on the insured cash account program for the account, please see the applicable disclosure booklet available from IAR.

The compensation that LPL receives related to an insured deposit account and the sweep money market funds is in addition to the Account Fee that LPL and IAR receive with respect to the assets in the sweep investment. This compensation related to the insured cash account and sweep money market funds presents a conflict of interest to LPL because LPL has a financial benefit if cash is invested in the insured cash account or the sweep funds. However, this compensation is retained by LPL and is not shared with its IARs. Therefore, this compensation does not cause an IAR to have a financial incentive to recommend that cash be held in the account instead of holding securities.

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

### Review of Accounts

LPL reviews program accounts using a risk based exception reporting system that flags accounts on a quarterly basis for criteria such as performance, trading activity, and concentration. The Advisory Chief Compliance Officer of LPL oversees the process for reviewing flagged accounts. IARs meet with clients. Such meetings may include review of accounts statements, quarterly performance reports, and other information or data related to the client's account and investment objectives.

LPL provides 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





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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

The IAR, LPL and LPL employees may receive additional compensation from product sponsors. However, such compensation may not be tied to the sales of any products. Compensation may include such items as gifts valued at less than \$100 annually, an occasional dinner or ticket to a sporting event, or reimbursement in connection with educational meetings or marketing or advertising initiatives, including services for identifying prospective clients. Product sponsors may also pay for, or reimburse LPL for the costs associated with, education or training events that may be attended by LPL employees and IARs and for LPL-sponsored conferences and events. LPL also receives reimbursement from product sponsors for technology-related costs associated with investment proposal tools it makes available to its IARs for use with clients. LPL makes available a list of product sponsors that provide these types of compensation on its website at [www.lpl.com](http://www.lpl.com).

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 does not share this compensation with IAR.

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

In the event a trade error occurs in the Account, and such error is determined to be caused by LPL, LPL typically will cancel the trade and remove the resulting monetary loss to Client from the Account. If a trade correction is required as a result of Client (e.g., if Client does not make full payment for purchases or fails to deliver negotiable securities for liquidations before trade settlement), LPL typically will cancel the trade and any resulting monetary loss will be borne by Client. In the case of a trade that requires a correction as described above and that resulted in a monetary gain to Client, such gain will be removed from the Account and may result in a financial benefit to LPL.

LPL entered into agreements with five variable annuity sponsors identified below (collectively "Funding Partners") pursuant to which the Funding Partners agreed to contribute a pro rata share, up to a fixed amount, for upfront and ongoing technology costs incurred by LPL to develop the operational functionality and technology systems necessary to operate and maintain a fee-based variable annuity platform (the "Platform") in the program.

Because LPL benefited from Funding Partners' financial contribution to the technology development, the amount of which is significant to LPL, there was a conflict between LPL's financial interest and its ability to use strictly objective factors to select the variable annuities available on the Platform. In addition, because the Funding Partners agreed to pay for ongoing technology costs to operate and maintain the Platform for as long as the Funding Partner's products are available on the Platform, there is also a conflict between LPL's financial interests and its ability to use strictly objective factors in deciding which variable annuities remain on the Platform. However, LPL did not guarantee that Funding Partners' variable annuities would be available on the Platform or used in any client account. In addition, each variable annuity available on the Platform is required to satisfy the due diligence standards set by LPL.

The following firms are Funding Partners: Allianz Life Insurance Company of North America, AXA Distributors, LLC, Lincoln Financial Distributors, Inc. and Prudential Annuities Life Assurance Corporation. SunLife Financial Distributors, Inc. contributed initially, but discontinued its variable annuities for purchase in program accounts. LPL and each Funding Partner are not affiliates of one another.

### LPL Compensation to IAR

The IAR recommending an advisory service receives compensation from LPL. LPL compensates IARs pursuant to an independent contractor agreement, and not as an employee. This compensation includes a portion of the advisory fee and, such portion received by IAR may be more than what IAR would receive at another investment advisor firm. Such compensation





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may include other types of compensation, such as bonuses, awards or other things of value offered by LPL to the IAR. In particular, LPL pays its IARs in different ways, for example:

- payments based on production
- equity awards from LPL's parent company, LPL Financial Holdings Inc., consisting of awards of either restricted stock units (a promise to deliver stock in the future) or stock options to purchase stock, in each case subject to satisfaction of vesting and other conditions
- reimbursement or credits of fees that IARs pay to LPL for items such as administrative services, or technology fees
- free or reduced-cost marketing materials
- payments in connection with the transition of association from another broker-dealer or investment advisor firm to LPL
- advances of advisory fees
- payments in the form of repayable or forgivable loans
- attendance at LPL conferences and events.

LPL pays IARs this compensation based on the IAR's overall business production and/or on the amount of assets serviced in LPL advisory relationships. The amount of this compensation may be more or less than what the IAR would receive if the client participated in other LPL programs, programs of other investment advisors or paid separately for investment advice, brokerage and other client services. Therefore, the IAR may have a financial incentive to recommend advisory services over other programs and services. However, an IAR may only recommend a program or service that he or she believes is suitable for you. LPL has systems in place to review IAR-managed accounts for suitability over the course of the advisory relationship.

If an IAR has recently become associated with LPL, he or she may have received payments from LPL in connection with the transition from another broker-dealer or investment advisor firm. These payments, which may be significant, are intended to assist an IAR with the costs associated with the transition, such as moving expenses, leasing space, furniture, staff and termination fees associated with moving accounts; however, LPL does not confirm the use of these payments for such transition costs. These payments may be in the form of loans to the IAR, which may be repayable to LPL or may be forgiven by LPL based on years of service with LPL (e.g., if the IAR remains with LPL for 5 years) and/or the scope of business engaged in with LPL, including the amount of advisory account assets with LPL. This presents a potential conflict of interest in that an IAR has a financial incentive to recommend that a client engage with the IAR and LPL for advisory services in order for the loan to be forgiven. However, an IAR may only recommend a program or service that he or she believes is suitable for you. LPL has systems in place to review IAR-managed accounts for suitability over the course of the advisory relationship.

### Client Referrals

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

LPL and its IARs may offer advisory services on the premises of unaffiliated financial institutions, like banks or credit unions. In such case, the advisory services are offered by LPL and not the financial institution, and any securities recommended as part of the investment advice are not guaranteed by the financial institution, or insured by the Federal Deposit Insurance Corporation or any other federal or state deposit guarantee fund relating to financial institutions.

LPL has entered into agreements with the financial institutions pursuant to which LPL shares compensation, including a portion of the Account Fee, with the financial institution for the use of the financial institution's facilities and for client referrals. In such case, instead of paying the IAR the portion of the Account Fee as described above, LPL may share such portion with the financial institution pursuant to the agreement between LPL and the financial institution, and the financial institution will pay part of that amount to the IAR. In addition, LPL may provide other forms of compensation to financial institutions, such as bonuses, awards or other things of value offered by LPL to the institution. In particular, LPL may pay a financial institution in different ways, for example, payments based on production, payments in the form of repayable or forgivable loans, reimbursement of fees that LPL charges for items such as administrative services, and other things of value such as free or



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reduced-cost marketing materials, payments in connection with the transition of association from another broker-dealer or investment advisor firm to LPL, advances of advisory fees, or attendance at LPL's national conference or top producer forums and events. LPL may pay this compensation based on overall business production and/or on the amount of assets serviced in LPL advisory programs. Therefore, the amount of this compensation may be more than what the financial institution 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 financial institution may have a financial incentive if an IAR recommends a program account over other programs and services.

### 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, variable annuities, 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, but may be paid transaction charges for processing trades depending on the type of security. 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. In the case of mutual funds, execution is made at the net asset value of the fund.

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

### Brochure Supplements

Accompanying this Brochure are Brochure Supplements for individual employees or officers of LPL. Note that although these individuals are responsible for investment advice provided by LPL and may meet with clients from time to time, they are not the IARs responsible for the ongoing individualized investment advice provided to a particular client. For more information about the IAR managing the account, client should refer to the Brochure Supplement for the IAR, which should have been provided by



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the IAR along with this Brochure at the time client opened the account. If client did not receive a Brochure Supplement for the IAR, the client should contact the IAR or LPL at [lplfinancial.adv@lpl.com](mailto:lplfinancial.adv@lpl.com).

Brochure Supplements for Certain LPL Financial Employees:

George Burton White John J. Canally, Jr. Kirby Horan-Adams Joseph Edwin Rackley	LPL Financial LLC 75 State Street, 24th Floor, Boston, MA 02109 (617) 423-3644 <a href="http://www.lpl.com">www.lpl.com</a>
Anthony Valeri Marcus Ehlers	LPL Financial LLC 4707 Executive Drive, San Diego, CA 92121 (800) 558-7567
Joy Goble	LPL Financial LLC 4828 Parkway Plaza, Charlotte, NC 28217
Adam I. Cohen Steven James Snyder	Fortigent, LLC 2600 Tower Oaks Boulevard, Suite 300, Rockville, MD 20852

August 8, 2014

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

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

Note that although these LPL employees or officers included in this Brochure Supplement are responsible for investment advice provided by LPL and may meet with clients from time to time, they are not the IARs responsible for the ongoing individualized investment advice provided to a particular client. For more information about the IAR managing the account, client should refer to the Brochure Supplement for the IAR, which should have been provided by the IAR along with the LPL Financial Brochure and this Brochure Supplement at the time client opened the account. If client did not receive a Brochure Supplement for the IAR, the client should contact the IAR or LPL at [lplfinancial.adv@lpl.com](mailto:lplfinancial.adv@lpl.com).

### 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.

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.

Kirby Lepak Horan-Adams was born in 1976. She has a BA in Math and Economics from Trinity College, an MBA and MSF from Boston College, and a JD from Boston College Law School. She is Senior Vice President and Director of Research at LPL and joined the LPL Research Department in 2006. Prior to joining LPL, she was an analyst at Cerulli Associates.



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

Joseph Edwin Rackley was born in 1981. He has an AB in History from Brown University. He is a Vice President for LPL Financial Research and has been with the firm since 2008. Prior to joining LPL, he served as a Vice President in the Advisory Services Group at Wachovia Securities, LLC.

Anthony Gino Valeri was born in 1970. 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 1993.

Marcus Ehlers was born in 1960. He has a BA from the University of Iowa. He is Senior Vice President of Trading and Commissions at LPL and joined LPL in 2010. Prior to joining LPL, Mr. Ehlers was an internal business consultant at Fidelity Investments from 2009 to 2010, and a Vice President at Schwab Institutional prior to 2009.

Joy Goble was born in 1956. She has a BA in Psychology from Erskine College and an MA in Organizational Communication from Queens University. She has been with LPL Financial since 2007 and is currently serving as the Head of Preservation Strategy. Prior to joining LPL Ms. Goble was SVP and Head of Product Management at First Charter Bank.

Adam I. Cohen was born in 1967. He has a BA in History from the College of Wooster and an MBA from Loyola University of Chicago's Quinlan School of Business. Mr. Cohen oversees Wealth Solutions for LPL and has been with Fortigent since 2012. Prior to joining Fortigent, Mr. Cohen oversaw institutional and private client portfolios at Cardinal Trust and Investments.

Steven James Snyder was born in 1973. He has a BA in Economics and a BS in Cognitive Science from the University of California at San Diego. He is the Research Operating Officer of LPL, and has served in that position since 2014. Prior to joining LPL, Mr. Snyder was Head of Due Diligence at Fortigent. Prior to Fortigent, he was a Due Diligence analyst at Dunham & Associates.

### **Disciplinary Information**

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

### **Other Business Activities**

Each of Mr. White, Mr. Canally, Ms. Horan-Adams, Mr. Rackley, Mr. Valeri, Mr. Ehlers and Ms. Goble is a registered representative of LPL. Each of Mr. Cohen and Mr. Snyder has an application pending to register as a registered representative of LPL and is an investment adviser representative of Fortigent, LLC ("Fortigent"), a registered investment adviser and related person of LPL. LPL is a registered broker-dealer and member of FINRA. Although these individuals are, or will be, registered representatives of LPL, they do 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**

Each of these individuals receives a regular salary and bonus.

### **Supervision**

Each of the individuals in this Brochure Supplement reports up to Mr. White, the Chief Investment Officer of LPL. As Chief Investment Officer, Mr. White is responsible for the advice provided by the LPL Research Department through LPL's advisory programs. The LPL Advisory Business Oversight Committee is responsible for making determinations with respect to the firm's policies for its business as an investment advisor, including review of certain services and products offered through the programs. The advice provided by these individuals 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.

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