

# Fund Management Services Program Disclosure Brochure

**Walnut Street Securities, Inc.**  
A MetLife Company

## Fund Management Services Program

### DISCLOSURE BROCHURE

March 15, 2013

This brochure provides information about the qualifications and business practices of Walnut Street Securities, Inc. (WSS). If you have any questions about the contents of this brochure, please contact us at 1-(877)-925-6881. 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 Walnut Street Securities, Inc. is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Walnut Street Securities, Inc. is a registered investment adviser and securities broker-dealer. Please note, registration does not imply a certain level of skill or training.

Walnut Street Securities, Inc.  
1095 Avenue of the Americas  
New York, NY 10036  
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ITEM 2. MATERIAL CHANGES

Pursuant to SEC rules, this Item summarizes the specific material changes that have been made to this Walnut Street Securities Inc. (“WSS,” “the Firm,” “we,” “our,” or “us”) Form ADV disclosure brochure (“Firm Brochure”) since its last annual update of the Firm’s Brochure on 3/31/2012.

When required or appropriate, we will also provide clients interim summary updates of material changes to our Firm Brochure.

Clients may ask for a copy of our current Firm Brochure, which includes all material changes since the previous Firm Brochure, or a summary of material changes to the previous Firm Brochure at any time, without charge by contacting 1-877-925-6881.

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The following is a summary of material changes:

**Item 12. Brokerage Practices**

Additional language has been added to clarify the brokerage arrangement in connection with the brokerage account that clients open through the Firm under the Program.

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## ITEM 4. ADVISORY BUSINESS

### Description of Advisory Firm

WSS is a Missouri corporation and is registered as an investment adviser (“IA”) with the SEC. WSS has conducted its advisory business since 2003. Its principal place of business is 1095 Avenue of the Americas, New York, NY 10036. WSS is also registered as a broker-dealer (“BD”) with the SEC and various states. As a BD and IA, WSS is regulated by the SEC, other agencies of the United States of America, the Financial Industry Regulatory Authority (“FINRA”), as well as applicable states. Since WSS is not registered as a broker-dealer or investment adviser outside of the U.S, WSS, its investment adviser representatives (“IARs”) and financial planners are generally not authorized to provide advisory services to persons permanently domiciled outside of the U.S.

WSS is a wholly owned direct subsidiary of MetLife Inc. (“MetLife”). WSS, together with other affiliates (see Item 10 – Other Financial Industry Activities and Affiliations -- for additional information), provides a wide array of financial products and services to its clients. When appropriate, WSS’s representatives may recommend the purchase of one or more such products or services to assist clients in pursuing their savings, insurance, investment or other financial objectives. Typically, the products or services recommended will consist of or include products or services sponsored, issued, sold, distributed, advised, or serviced by WSS or its affiliates.

In addition to the investment advisory services described in detail in this Brochure, WSS also offers other advisory services. If you want more information about the other advisory services available through WSS, ask your IAR

### Total Assets Under Management (AUM)

As of 12/31/12, the Firm has \$28.96 million AUM in total in the FMS Program. The Firm does not manage money on a discretionary basis in this program.

### Overview of the advisory services offered by the Firm

The Firm makes available to you a number of proprietary and nonproprietary investment advisory programs and services. This Firm Brochure provides you with information about the Fund Management Services Program (the “Program”) available through the Firm. If you wish to learn about other investment advisory programs and services that the Firm offers, you may contact the Firm or your Firm’s investment adviser representative (“IAR”) to receive a similar Form ADV disclosure brochure for those programs and services.

### Fund Management Services Program

The Program is one of the Firm’s proprietary investment advisory programs. In addition to this Firm Brochure, you will receive from your IAR a Form ADV disclosure brochure (“Lockwood Brochure”) for Lockwood Advisors, Inc. (“Lockwood”). You should carefully review the Lockwood Brochure, since it outlines important information about Lockwood and its role and responsibilities under the FMS Program.

### Program Overview

The Program is an investment advisory program available to a variety of customers, such as individuals, high net worth individuals, various types of business organizations, pension and profit-sharing plans, charitable institutions, foundations, endowments and trusts. The Firm and Lockwood are co-sponsors of the Program. Clients should

understand that the Program does not offer a tax-sensitive investment portfolio. Clients who wish to invest in an advisory program that offers a tax-sensitive investment portfolio may wish to consider other investment advisory programs available through the Firm.

The Program is a “mutual fund asset allocation program” under which a client receives various services, including the following:

- Review of client's investment objectives, risk tolerance, time horizon and other financial information provided by the Client;
- Recommendation of investment model and mutual funds pre-screened by Lockwood based on the client's investment objectives, risk tolerance and time horizon;
- Mutual fund purchase and sale execution, and custody;
- Automatic rebalancing;
- Ongoing portfolio monitoring;
- Monthly or quarterly account statements;
- Performance reports upon request; and
- Periodic review of client accounts.

### Firm Services

If a client wishes to participate in the Program, the IAR will assist the client to determine if the Program is appropriate for the client and provide all Account opening documents, disclosures and other necessary documents. If the client concludes that the Program is appropriate, the IAR will assist the client in completing an Investment Account Application and Agreement (“IAAA”), to apply for the Program and open a Program account (“Account”). The IAAA enables the Client to provide the Firm with certain financial information, including the client's investment objectives, risk tolerance and time horizon.

In addition, IARs will accept inquiries about the Program and coordinate the provision of responses to clients. The Firm also provides ongoing client services related to the Program. Please see Item 13 for details.

Based on the information provided in the IAAA, the IAR will recommend a model investment portfolio (“Portfolio”) (e.g., income, growth and income, aggressive growth, etc.) . However, the ultimate decision on which Portfolio is chosen rests with the client. While the IAR is responsible for obtaining the client's financial information, communicating the Portfolio recommendation to the client and providing client support, Lockwood is solely responsible for creating and maintaining the model Portfolios including the asset classes, investment style allocation mix and the mutual funds (“Program Funds”).

### Lockwood Services

Lockwood assembles and maintains Portfolios (e.g., income, income and growth, growth and income, growth, aggressive growth) that are comprised of different asset classes (e.g., fixed income, equity, cash, etc.). Each Portfolio consists of a unique allocation of asset classes with a distinctive expected risk tolerance and investment objective. Certain asset classes may consist of multiple investment styles (e.g., large cap value, large cap core, large cap growth, etc). Under the Program, client invests in a Portfolio of mutual funds consistent with the client’s risk tolerance, investment objective and time horizon that fits the client's financial situation. More information regarding the Portfolios can be found in the Program's Model Portfolio Lineup or similar document.

Under the Program, there can be one or more Program Funds for each investment style. Except for the money market Program Fund which is designated by the Firm, using quantitative/qualitative analysis and screening techniques, Lockwood is responsible for screening funds and selecting Program Funds for the Program from a list of funds selected by the Firm. The Portfolios are constructed by Lockwood and may not be amended by the IAR or the Client. A client can only accept or reject the Portfolio in its entirety. It is up to the client to decide whether or not to invest in the Program Funds recommended to them. Please see Section “b” of “Lockwood Services” below for more information.

#### **a. Portfolio Basics**

The Program Portfolios are maintained and managed by Lockwood. Lockwood has classified investors into 5 different categories, depending on their risk tolerance, investment objective and time horizon and has created multiple Portfolios for each of the 5 categories of investors.

Lockwood also has divided the investment universe into asset classes and further divided some of these asset classes into investment styles. Lockwood has selected an asset class allocation mix for each of the 5 categories. In addition, under the Program, Lockwood has selected the Program Funds by subjecting mutual funds in a given asset class to a screening process. Only those mutual funds satisfying Lockwood's screening criteria as described in section “b” of “Lockwood Services” below, are included in the Program Funds under the Program. Thus, each of the Portfolios is comprised of a mix of asset classes and investment styles represented by the Program Funds. Clients may either select a Portfolio which consists solely of mutual funds from one particular fund family (“Single Fund Family Portfolio”) or from a Portfolio comprised of mutual funds from multiple fund families (“Multi-Fund Family Portfolio”). Lockwood has sought to maintain diversification within each Portfolio through the Program Funds. The more aggressive Portfolios generally have greater small/mid cap equity and foreign exposure and the more conservative Portfolios generally have more bond and large cap exposure. The Portfolios containing significant portions of both equity and fixed income mutual funds seek to provide a combination of both capital appreciation and capital preservation.

Additionally, WSS selects the cash investment vehicles for the cash investment style portion of Client's portfolio. A money market fund (“Money Fund”) or an FDIC-insured money market bank sweep arrangement comprises the cash investment style portion of Client's portfolio, and Client's assets in such cash investment style portion are used to pay Client's advisory fee for participating in the Program (“Fee”) and other fees and charges assessed under the Program.

If Client's Account is a Bank-Eligible Account, as defined below, Client instructs Pershing LLC, the Program's custodian whose role and responsibilities are described in Item 4e below (“Custodian”), to automatically deposit monies in Client's cash investment style portion of the portfolio into the Dreyfus Insured Deposit Single Rate Program Basic FDIC-Insured Money Market Sweep Account or another bank sweep vehicle selected by WSS (each sweep account opened by the Custodian at a participating financial institution is a “Deposit Account”) each business day in accordance with the terms and conditions disclosure document for the Deposit Account (“Deposit Account Disclosure Document”). A summary of the Deposit Account Disclosure Document is included in this Disclosure Booklet for Client's convenience and informational purposes only, and Client agrees to read the full Deposit Account Disclosure Document, which can be obtained from the IAR upon request at any time and will be sent to Client by the Program Custodian once Client's Account is opened. Lockwood, the Custodian and Dreyfus Cash Investment Services, a service provider for the Custodian in connection with the Dreyfus Insured Deposit Single Rate Program,

are affiliated. The Deposit Accounts are FDIC insured interest-bearing bank accounts and are therefore not securities accounts and not insured by SIPC.

A “Bank-Eligible Account” is an Account that is not deemed to be a “Bank-Ineligible Account.” A “Bank-Ineligible Account” is an Account owned by an entity that is ineligible to maintain a negotiable order of withdrawal (“NOW”) account under 12 C.F.R. § 204.130. Generally, entities that are organized or established to make a profit, such as for-profit corporations, partnerships and limited liability companies, are considered ineligible to maintain NOW accounts, and will not have money in the cash investment style swept to a Deposit Account, which is a NOW account. Deposit Accounts are opened and maintained by the Custodian at the financial institutions identified in the Deposit Account Disclosure Document and are entitled “Pershing, LLC, as agent for its customers, acting for themselves or others”.

If Client's Account is a Bank-Eligible Account, Client will earn interest on Client's cash investment style held on deposit in the Deposit Account(s) at the financial institution(s). The interest that Client earns may vary and how the interest is calculated is described in the Deposit Account Disclosure Document. Interest will be calculated and credited to Client's Account by the Custodian and reflected in the monthly Program Account statement sent by the Custodian.

If Client's Account is a Bank-Ineligible Account, Client instructs the Custodian to automatically place Client's monies representing the cash investment style in a Money Fund selected by WSS; as a result client will not be put into a Deposit Account. If the Account belongs to a for-profit corporation, a partnership or a limited liability company, the Account will initially, by default, be considered a Bank-Ineligible Account. However, Client acknowledges and agrees that Client is solely responsible for determining whether monies in Client's investment style is eligible for deposit into a Deposit Account regardless of this default feature and agrees to promptly notify WSS if Client's Account is deemed to be a Bank Ineligible Account at any time. In the event that Client's Account holds any assets of an entity that is ineligible to maintain a NOW account and Client's Account is deemed to be a Bank-Eligible Account, Client agrees to notify WSS immediately in order to have all monies in the Account representing the cash investment style automatically placed in a Money Fund selected by WSS. Client acknowledges and agrees that WSS shall have no responsibility for monitoring Client's compliance with, nor any liability resulting from Client's failure to comply with, 12 C.F.R. § 204.130. Client will receive a prospectus for the Money Fund.

#### **b. Lockwood's Screening Process**

The Firm provides Lockwood with a selection of mutual funds which are screened by Lockwood for inclusion into the Multi-Fund Family Portfolio. In addition, the Firm selects and designates the mutual fund families for Lockwood to construct the Single Fund Family Portfolios for the Program. With respect to the selection of individual mutual funds for inclusion in each particular Single Fund Family Portfolio, Lockwood may only select from the mutual funds from that particular mutual fund family designated by the Firm. The funds and fund families provided to Lockwood by the Firm are generally based on factors that include, but are not limited to the following: whether the Firm has a selling agreement with the fund company, the expenses and charges to the Firm associated to offering such funds within the Program and costs to client for owning such funds within the Program.

The purpose of the screening process is to identify mutual funds that satisfy certain minimum investment criteria set by Lockwood. The criteria utilized by Lockwood in selecting Program Funds are described in more detail in the Lockwood Brochure.



Program Funds are subject to market risk and possible loss of principal.

### **Program Termination**

The Investment Management Agreement (“Program Agreement”) will continue in effect until terminated by either the client (upon written notice to the Firm), or the Firm or Lockwood (upon written notice to client). Notwithstanding the foregoing, the Firm may retain amounts in a client's Account sufficient to effect any open and unsettled transactions. In this respect, clients are responsible to pay for services rendered, and for transactions effected. Any termination will therefore not affect any liabilities or obligations that are incurred or that arise from transactions before such termination.

Upon termination by the client, it is the client's responsibility to instruct the Firm as to any future actions regarding the assets in the Account. Unless instructed otherwise, the Firm will move client's assets to a standard brokerage account. In addition, the Firm reserves the right to send cash related assets to client's address of record. If the Firm or Lockwood terminates the agreement, the client's assets will be moved to a standard brokerage account or client will be mailed a check as determined by the Firm or Lockwood. Upon termination of the Program Agreement, the client assets will not be managed. Any client assets transferred to a standard brokerage account will be subject to the fees and charges normally assessed by the Firm on its brokerage accounts. In addition, the client will continue to be bound to the terms and conditions as described in the Brokerage Account Agreement portion of the IAAA which is signed by the client upon establishment of the FMS Account.

### **ITEM 5. FEES AND COMPENSATION**

Clients in the Program will be charged a non-negotiable annual fee (“Fee”) of 1% that covers the advisory services provided by the Firm and Lockwood under the Program, the brokerage services involved in purchasing and selling the Program Funds, and the custodial and clearing services provided by Pershing. Pershing is responsible for deducting all Fees from client Accounts. The Fee is a percentage of the assets clients have in the Program and will be paid in advance on a quarterly basis as described in Item 5A below. The Program Funds are “no load” or “load” waived mutual funds, meaning the sales charges typically associated with mutual funds will not be charged to the Client.

The Fee is split between Lockwood and the Firm. Lockwood receives up to a maximum annually of 0.15 % per Program Account based on the Account value for providing investment advisory services under the Program. The Firm receives the remaining portion of the Fee. The Firm shares its portion of the Fee with the IARs and pays Pershing to cover ticket charges and other transaction-related fees. The Firm reserves the right to lower the Fee for accounts held by employees, associated persons, agents, or independent contractors of the Firm or its affiliates and their immediate family members.

To the extent that assets used for investment in the Program come from the redemption of mutual funds, clients should consider the cost of any sales charges previously paid or to be paid upon redemption. In this respect, the Firm may reduce its portion of the Fee to take into account the sales charges clients may have incurred in connection with the liquidation of mutual fund shares (“Fee Forgiveness”).

Fee Forgiveness is not automatic. Instead, clients must apply for Fee Forgiveness through the IAAA and provide documentation supporting the Fee Forgiveness claim. Fee Forgiveness is available only while a client's Account is opened. If the Account is terminated for any reason, any remaining fees scheduled to be forgiven will not be forgiven. In addition, if a client does not provide documentation demonstrating eligibility for Fee Forgiveness, the client may not qualify to receive Fee Forgiveness. Additional details regarding Fee Forgiveness can be found in the Program Agreement portion of the IAAA.

The Fee does not include special requests by clients or the internal management, operating or distribution fees including any redemption fees or expenses imposed or incurred by the Program Funds. Clients should read each fund's prospectus for a more complete explanation of these fees and expenses, which pay for management, administration, shareholder servicing, distribution, transfer agent, custodial, legal, audit and other services.

Clients may purchase the Program Funds outside of the Program without paying the Fee or may pay less than the Fee. Thus, it may be more cost efficient for clients to purchase the Program Funds outside of the Program. However, clients will not receive the services provided under the Program if they choose to do so. The Fee a client pays may be higher than those charged by the Firm for other advisory programs offered through the Firm, or higher than those charged by other sponsors of comparable programs.

#### **a. Payment of Fees and Charges**

Upon acceptance of the IAAA and the Account being funded at or above the Program minimum, \$10,000, unless waived by the Firm, clients pay an initial Fee that is based on the initial market value of the Account. The first payment is prorated to cover the period from the date the Account is opened through the end of the current calendar quarter. Thereafter, the quarterly Fee is paid at the beginning of each calendar quarter for such quarter. The quarterly Fee is based on the fair market value of the assets in the Account (which includes any assets in the cash investment style) on the last business day of the preceding calendar quarter as calculated by Pershing.

Clients also are subject to a Fee for any additional lump sum contribution(s) in a calendar quarter equal to or greater than \$2,000. Clients will pay for that portion of the ongoing quarterly Fee that relates to the number of days remaining in the calendar quarter on the date of an additional contribution equal to or greater than \$2,000. Payment of the fee will be made in the quarter following any such contribution and will be based on the amount of the contribution.

Clients may withdraw assets from their Account at any time, subject to the usual and customary settlement procedures. All withdrawals are first funded from the amount in the client's cash investment style. Withdrawals may have tax consequences such as capital gains or other applicable taxes. If the amount maintained in the cash investment style is not enough to meet a withdrawal request, the remaining amount of the withdrawal request will be satisfied by redeeming shares of the Program Funds in the client's Account at Lockwood's discretion. Lockwood will rebalance the Account back toward the selected allocation, thus triggering a possible taxable event. No adjustment to the Fee or refund is made with respect to partial withdrawals that may be made during any calendar quarter.

If an Account is terminated, Pershing will calculate and refund to clients a pro rata portion of any pre-paid, but unearned Fee for the current quarter. The amount refunded to clients will be based on the number of days remaining in the quarter after the date of termination.

Clients pay the Fee and other fees and charges under the Program by instructing Pershing through the Program agreement to automatically debit the Fee, and applicable fees and charges (collectively "Expenses"), from their Account. The amount debited to pay the Expenses under the Program will appear on statements clients receive from Pershing. The Expenses are first deducted by Pershing from Assets a client has in the cash investment style (i.e., the money market Fund or the Deposit Account, as applicable) approximately two weeks following the end of the quarter. Lockwood will automatically rebalance a client's Accounts if payment of the Expenses under the Program causes the client's cash investment style to fall below the percentage threshold (and if the dollar threshold is met) and/or to cover any Account debit balances. If this occurs, Lockwood will cause the remaining amount of the Expenses and/or Account debit balances that cannot be covered by Assets in the cash investment style to be paid by redeeming shares of Securities in the client's Account. In such cases, the client may face a taxable event, to which capital gains (or other) taxes may apply.

The money debited from client's Account will be sent by Pershing to the Firm.

#### **b. Additional Client Fees**

All Accounts will be subject to the following fees and charges:

- ACH Return Check Fee - \$25
- Returned Check Fee - \$25
- Wired Funds - \$25 per wire
- Overnight Charges - \$20
- Ordinary IRA to Roth IRA Conversion - \$25
- IRA Annual Maintenance Fee - \$22.50

The above fees and charges are deducted by Pershing from a client's cash asset class at the time they are incurred. The Fee does not include these fees or charges.

In addition, certain client Accounts are subject to the following brokerage account termination fees:

- Ordinary IRA and SEP - \$75
- Roth and Education IRA - \$75
- SAR/SEP, Qualified Retirement Plans, and 403(b)(7) Plans - \$75

The above Termination Fees are deducted from the Account at termination. The Fee does not include these fees.

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

The Firm does not charge clients in the Program any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client).

#### **ITEM 7. TYPES OF CLIENTS**

The Firm provides investment advisory services to individuals, high net worth individuals, various types of business organizations, pension and profit-sharing plans, charitable institutions, foundations, endowments, and trusts.

The Firm generally requires a client to execute a Program Agreement and complete an IAAA in order to participate in the Program. Some clients (e.g., a trust or a corporate pension plan) may be required to submit additional documentation in order to open an account.

The minimum initial contribution to open an Account under in the Program is \$10,000 unless waived by the Firm, and the minimum subsequent contribution amount in the Program is \$25 if payments are made by ACH, fed fund wires, or by check. Clients may make additional contributions to their Accounts at any time subject to the above minimums. Clients may fund contributions to the Program with cash or securities.

Accounts cannot be aggregated, even if they are beneficially owned by the same person or entity, for the purpose of meeting the minimum thresholds. Your assets in the Program will not be managed until the Program minimum of \$10,000 is reached, unless waived by the Firm. In such situations, any cash will be placed in a money market program fund or the Deposit Account until the asset value reaches the Program minimum. Once the Program minimum is met, Client assets will then be invested in accordance with Client's selected Portfolio.

Additional contributions under the Program are allocated initially to the cash investment style (the money market Program Fund or the Deposit Account, as applicable) and will remain there until a client's Account is rebalanced. Accordingly, additional contributions under the Program will remain in the cash investment style until a rebalance is triggered as determined by Lockwood. Please see Lockwood's Disclosure Brochure for more information. If an Account falls below the \$10,000 account minimum requirement at any time and for any reason, the Firm may, in its discretion, close the Account and transfer the assets therein to a standard brokerage account. Once in a standard brokerage account, such assets will not be managed and will be subject to the fees and charges normally assessed by the Firm on its brokerage accounts.

Clients who intend to fund the Program with securities that cannot be accepted into the Program, (e.g. non-Program funds), will need to liquidate those securities before transferring them into the Program. If the Firm receives securities that cannot be accepted into the Program, the Firm in its discretion may liquidate those securities holdings. Such liquidation of current securities holdings may have tax consequences that should be carefully considered and discussed with a qualified tax advisor before the client initiates the transfer into the Program.

If a client owns shares of a Program Fund outside of the Program and wants to transfer such shares into the Program, Lockwood will rebalance the client's Account in accordance with the client's initial investment style allocation mix, if necessary. This means that if all of the shares of the Program Fund cannot be transferred into the selected Program without causing the client's Account to be out of balance with the selected Portfolio, those shares that would cause the client's Account to be out of balance may be sold by Lockwood at its discretion. The proceeds of the sale will be used to purchase other Program Funds in accordance with the client's investment style allocations. Since transferring shares of a Program Fund held outside the Program into the Program may trigger fund sales, such transfers may result in a taxable event in which capital gains or other taxes apply. Clients therefore may wish to consult with a tax professional before initiating the transfer.

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

As indicated in Item 4, Lockwood is tasked with the responsibility for creating and maintaining the Portfolios, which includes screening for the inclusion or the removal of Program Funds for each Portfolio, under the Program. In fulfilling this responsibility, Lockwood uses its proprietary due diligence and analytical methodologies to create, monitor and maintain Portfolios and to monitor and maintain the Program Funds. Please refer to Item 8 in the Lockwood Brochure for further details.

Investing in securities, including Program Funds, involves risk of loss that clients should be prepared to bear. Clients may experience loss in the value of their Account under the Program, including loss of principal, due to market fluctuation. There is no guarantee that a client's investment objectives will be achieved by participating in the Program. Clients should read carefully a copy of the current prospectus for each Program Fund selected under the Program prior to investing. The prospectus contains information regarding the fees, expenses, investment objectives, investment techniques, and risks of the Program Funds. 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 the Firm concerning the benefits of investment in the Program. The Firm and its IARs do not provide legal or tax advice. Clients with tax or legal questions should seek a qualified independent expert.

## ITEM 9. DISCIPLINARY INFORMATION

In September 2006, Walnut Street Securities (WSS) and certain of its affiliates reached a settlement with the National Association of Securities Dealers (NASD) relating to allegations that WSS and its affiliates: executed late trades; submitted inaccurate responses to NASD regulatory inquiries; failed to establish and maintain adequate supervisory systems and written procedures to prevent and detect late trading; failed to capture the time of customer mutual fund orders; failed to produce responsive emails in a timely fashion; and, failed to retain emails for the required time period. WSS and affiliates agreed and certified to the NASD that the firms (I) reviewed their procedures related to email retention, recording the time of mutual fund orders, and the productions of email in response to regulatory requests and late trading, and (II) established procedures designed to achieve compliance with laws, regulations and rules concerning these matters. WSS and its affiliates also agreed to pay a fine, joint and severally, of \$5,000,000.

In November 2009, WSS and its affiliates reached a settlement with the Financial Industry Regulation Authority (FINRA) regarding the supervision of email correspondence, and the supervision of associated persons in outside business activities and private securities transactions. WSS and its affiliates were fined \$1,200,000 jointly and severally. WSS's portion of the fine was \$240,000.

## ITEM 10. OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

The Firm is registered with the SEC as an investment adviser and a broker-dealer and certain of its principal officers are registered as IARs and/or registered representatives ("RRs") of the Firm. In its capacity as a broker-dealer, the Firm sells variable insurance products and general securities, including, but not limited to the public. The insurance products available through the Firm include products issued by affiliated insurance companies as well as those issued by

unaffiliated issuers. As part of this business, the Firm, through its RR who may also be IARs, provides a broad range of securities brokerage services which may include clients who participate in the Program. The Firm, as a broker-dealer, effects securities transactions for these brokerage customers for compensation and may recommend that customers buy or sell securities or investment products in which the Firm or its officers, directors, employees or RR have a financial interest or may themselves purchase or sell. For example, MetLife, Inc. (NYSE: MET) is the ultimately parent company of the Firm and its shares are publicly traded. The Firm, through its RR and/or IARs, may recommend customers to purchase, sell or hold, and/ or effect transactions for clients in, MetLife, Inc. stock. Clients should be aware that compensation earned by the Firm and its RR vary by product and by issuer. Therefore, the Firm and its RR may receive more compensation for selling certain products issued by a Firm affiliate than for selling certain products issued by companies that are not affiliated with the Firm.

The following describes the relationship or arrangement that the Firm has with its affiliates that may be material either to the advisory business of the Firm or to its clients.

### Broker Dealers, Other Investment Advisers and Investment Companies

The Firm is affiliated with New England Securities Corporation ("NES"), MetLife Securities, Inc. ("MSI") and Tower Square Securities ("TSS"). The Firm, NES, MSI and TSS are each an investment adviser registered with the SEC and a member broker-dealer firm of the Financial Industry Regulatory Authority, Inc. ("FINRA").

Where permitted by the Firm and authorized by the prospective customer, an RR or an IAR of NES, MSI and TSS may refer such prospective customer to a Firm RR or IAR in exchange for a referral fee, or such RR or IAR of NES, MSI and TSS may work with a Firm RR or IAR in order to jointly sell advisory products and services, including the FMS Program, to a prospective customer. Any commissions or fees generated as a result of the joint sale will be shared.

In addition to the advisory business relationship between Lockwood and the Firm as described in Item 4 above, Lockwood pays a fee to attend Firm sponsored sales and/or training conferences. Lockwood generally networks with, and provides training to, IARs and the Firm's personnel during these conferences. The fee received by the Firm is used to offset expenses associated with hosting the conferences and is not paid directly to IARs. While IARs do not receive a portion of this fee, IARs may be more likely to recommend the Program, or other Lockwood advisory programs available through the Firm, to prospective clients because of the education and the exposures that IARs receive on Lockwood and its services.

As indicated in Item 4, the Firm also serves as the broker-dealer for the client Accounts under the Program. If available, the Firm, as a broker-dealer, receives asset-based distribution or servicing fees (in the form of so-called "12b-1 fees" or otherwise) from certain Program Funds for providing distribution and/or administrative services to Program Funds. Further information regarding these fees and other charges assessed by Program Funds may be found in the appropriate prospectus or annual report. This compensation to the Firm from such Program Funds is in addition to the advisory and other fees the Firm receives under the Program. The Firm has an incentive for clients to invest in Program Funds that pay 12b-1 fees. The Firm may, in its sole discretion, credit to Clients' Accounts an amount equal to any such 12b-1 fees the Firm receives on such assets held in Clients' Accounts in order to offset Fees paid under the Program. However, the Firm will refund all 12b-1 fees received on all Program Funds



held in Accounts owned by plans subject to ERISA, including SEP-IRA Accounts and SIMPLE IRA Accounts.

Certain IARs of the Firm may also be affiliated with and provide investment advisory services through an investment adviser that is not affiliated with the Firm ("Third Party Adviser"). In that respect, such IARs may offer investment advisory programs through both the Firm and the Third Party Adviser. The compensation that they receive from the Third Party Adviser for offering investment advisory services may be more or less than the compensation that they receive from the Firm. While the investment advisory programs made available by the Third Party Adviser may differ materially from the programs made available by the Firm, the IARs may potentially recommend an investment advisory program that offers them the greatest compensation potential.

Moreover, should a trade error occur where the Firm acts as the broker-dealer to the Account and the error/correction results in a gain, the gain may be kept by the Firm. Gains that are captured due to trade errors are placed in the Firm's general account and used at the Firm's discretion. If gains are not used to cover an expense within a fiscal year, such gains will be considered a profit.

The Firm may receive rebates or service credits on certain charges from Pershing based on the number of Accounts opened by clients in a given time period. This is in addition to the advisory and other fees the Firm receives under the Program. As a result, the Firm has an incentive for clients to participate in the Program. Client should understand that these rebates are paid directly to the Firm and are not shared with the IAR or IAR's branch manager.

#### **Banking or Thrift Institutions**

MetLife Bank, N.A. is a nationally chartered bank providing traditional services to individuals and institutions. The MetLife Bank is affiliated with the Firm. The Firm's registered representatives, some of which are also IARs, may refer the Firm's clients to the Bank for retail banking and mortgage services in exchange for a referral fee.

The sale of MetLife Bank to an unaffiliated entity is expected to close in 2013. Upon the sale of MetLife Bank, the referral arrangement referenced above will be terminated.

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

To help manage conflicts of interest, WSS has adopted a code of ethics (the "Code") pursuant to an SEC rule. As a general summary, the Code, among other things, requires certain persons to observe guidelines regarding fiduciary responsibilities, and observe restrictions in the giving and receipt of gifts. The Code also requires certain persons of the Firm to periodically report certain personal securities holdings, accounts and transactions, including those of certain family (household) members, and periodically certify that they understand their obligations under the Code and the firm's Investment Adviser Compliance Manual. Some personnel who are authorized to provide specific advisory services are required to move their and/or their family (household) members' personal securities accounts and other accounts under their control or beneficial ownership to a brokerage account at WSS or one of its affiliates, and to observe blackout restrictions and other limitations with respect to those accounts. A copy of the Code will be made available to all clients and prospective clients upon request to WSS.

WSS or its IARs may give advice or take action in performing their duties for other clients or for their own accounts that differs from the advice provided, or in the timing and nature of action taken, with respect to clients in the FMS Program. In addition, WSS and its IARs may give advice or take action in performing their duties for one

client in the Program that differs from the advice provided, or in the timing and nature of action taken, with respect to another client in the Program.

#### **ITEM 12. BROKERAGE PRACTICES**

In order for Lockwood to effect trades under the Program, clients must open a brokerage account with the Firm. Securities trades effected under the Program for client accounts generally will be placed by Lockwood through the Firm in the Firm's capacity as an introducing broker-dealer, and transactions will be cleared and settled by Pershing, the account's clearing firm and an affiliate of Lockwood. Client's assets will also be custodied at Pershing.

If Lockwood reasonably believes in good faith, and consistent with applicable fiduciary standards, that a broker or dealer other than the Firm (with Pershing as the clearing firm) will provide better execution considering all factors including the net price, then Lockwood may place trades through another broker or dealer. Client hereby acknowledges that directing Lockwood to place trades through the Firm may result in certain costs or disadvantages to client, either because client may pay higher commissions or other costs on some transactions than might otherwise be attainable by Lockwood, or may receive less favorable execution on some transactions, or both. Not all advisers require their clients to direct brokerage transactions. However, if Lockwood was to place a transaction through a broker or dealer other than the Firm, the expense of commissions or other transaction costs for or associated with services provided by another broker or dealer will be additional expenses not included in the Fee.

Furthermore, the Firm does not use soft dollar research or services.

Please refer to Item 6 of the Lockwood Brochure for more information on Lockwood's brokerage practices.

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

##### **Services provided by the Firm**

The Firm, through the IARs, will be available during business hours to answer any questions that the Client may have regarding their Account and/or to provide client services. The Firm will notify clients in writing at least quarterly to contact the Firm if there have been any changes in their financial situation, investment objectives that might affect the manner in which their Account assets should be managed, or if the client wishes to make any changes to investment restrictions imposed on Lockwood.

The Firm will contact clients at least annually. At the annual meeting, the IAR assigned to the Account will inquire whether anything has changed in client's financial circumstances or investment objectives that might affect the manner in which the client's Account assets should be managed. This annual consultation is designed to determine whether the Program itself and the client's Portfolio are still appropriate and consistent with the client's financial circumstances and investment objectives. In addition, the client has the ability to add or modify any previously accepted investment restrictions imposed on Lockwood. The IAR also is available on an ongoing basis to discuss the client's participation in the Program or the client's investments in general. The Firm will forward any updated information it receives from client to Lockwood for review and assist the client in making any appropriate changes to the client's Account, if necessary.

##### **Services provided by Lockwood**

Under the Program, Lockwood has certain responsibilities. Lockwood's execution of its responsibilities may have a significant impact on the composition and performance of the Portfolios as well as important tax consequences. Client should carefully consider the potential tax implications of the transactions effected by Lockwood described below, and consult a qualified, independent tax professional for advice.

Lockwood has the authority to make trades in client's account as necessary to fulfill its obligations under either Program. This includes the authority to make appropriate Program Fund replacements and Portfolio changes as described below. The client will be notified of such changes through confirmations and account statements from the Custodian. The client does not have the ability to opt out of this aspect of the Program.

#### **a. Program Fund Replacement**

Lockwood may, in its discretion, remove a Program Fund from the Program if such Program Fund does not meet its screening criteria, and replace it with another mutual fund. Lockwood will automatically move the assets from the old Program Fund into the new replacement Program Fund selected by Lockwood. If a replacement Program Fund is not selected as described in this Section, assets from the old Program Fund will be automatically reallocated by Lockwood for investment among the other Program Fund(s) currently held within the Portfolio in accordance with the Portfolio's target investment style allocation mix. The foregoing replacement process will be subject to the usual and customary settlement procedures governing mutual funds and may have tax consequences. The client does not have the ability to opt out of this Program feature and will be notified of such changes through confirmations and Account statements from the Custodian.

#### **b. Portfolio Changes**

Lockwood may, in its discretion, discontinue a particular Single Fund Family Portfolio if the Program Funds in such Single Fund Family Portfolio fail to meet the applicable screening criteria. If Lockwood discontinues a particular Single Fund Family Portfolio selected by the Client, Lockwood will reallocate the client's Account in a comparable Multi-Fund Family Portfolio, replacing Program Funds in the client's Account as necessary. Additionally, certain financial and economic events may prompt Lockwood to change the recommended asset allocations comprising a given Portfolio. If Lockwood deems it advisable, it may, in its sole discretion, adjust the recommended asset class percentages forming a Portfolio. Such a change will result in adjustments to the investment style and Program Fund allocations in the client's Account. The client will not have the ability to opt out of these changes by Lockwood. If such a change occurs, the client will be notified of the changes through confirmations and Account statements from the Custodian. There may be tax consequences when there is an adjustment to the Portfolio. The transaction described in "a" and "b" above do not apply to the money market Program Fund or the Deposit Account.

#### **c. Account Rebalancing**

The Program contains a feature under which Lockwood reviews Accounts on at least an annual basis to determine if rebalancing should occur. The client does not have the ability to opt out of this feature. If Lockwood determines rebalancing should occur, it will rebalance the Account back to the Portfolio selected by the client. Annual rebalancing occurs if the current weighting of the Program Funds causes an investment style to vary by any predetermined percentage of the threshold and the minimum trade amount can be met. The minimum trade amount is \$50.00.

The value of each Program Fund may vary over time. If on or near the anniversary date of the Account, the value of the Program Funds in a client's Account causes a given investment style to deviate from the client's selected Portfolio, then the client's Account will automatically be rebalanced to the Portfolio selected by the client as long as the minimum trade amount can be met. Lockwood will purchase additional shares of certain Program Funds and sell shares of other Program Fund in order to return the investment style back

to the Portfolio selected by the Client. Redemptions and exchanges resulting from rebalancing a client's Account may have tax consequences.

All of the Portfolios in the Program have a cash investment style target level of 3% ("Cash Target"), meaning the Portfolios are designed to maintain approximately 3% in the cash investment style to pay for fees and charges under the Program. There may be instances when the cash allocation temporarily exceeds the Cash Target due to standard operational processing, such as the removal of Program Funds from client Accounts, processing of client contributions or withdrawals, or during the initial investment of a client Account. If the amount of a client's cash investment style varies beyond the percentage threshold (and the dollar threshold is met), then the client's Account will automatically be rebalanced by Lockwood back toward its original allocation mix so that the client's cash investment style again constitutes approximately 3% of the Portfolio. This rebalancing occurs as required and is not limited to annually.

#### **d. Performance Reports**

Clients have the ability to request an Account Performance Report from their IAR at any time. The report generally includes the beginning and ending account value, net contribution and withdrawals, and a rate of return for a specific time period. Clients should be aware that the Account Performance Report is not an official Account statement from the Custodian. It should be used only for informational purposes and should not be relied upon for making investment decisions or tax purposes. Clients should promptly notify the Firm or IAR upon discovery of any errors, discrepancies or irregularities.

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

#### **Additional Compensation Related to Advisory Activities and Referral Arrangements**

The Firm is registered as both an investment adviser and a broker-dealer. In its role as a broker-dealer, the Firm focuses on a select group of mutual funds. These fund families (also called Strategic Partners and Conference Partners) receive a variety of benefits that are described in the Firm's "Disclosure Brochure-Mutual Fund Marketing and Compensation Arrangements" ("Partners Disclosure"), which clients will receive during the Account opening process. The distributor, investment adviser or another entity related to the Strategic Partner and Conference Partner fund family makes cash payments to the Firm to participate in the Strategic Partners and Conference Partners Programs. A list of the participating Strategic and Conference Partners can be found in the Partners Disclosure. Clients should understand that none of the cash payments described therein are made directly to the Firm's branch managers, registered representatives or IARs who sell or recommend these products. Furthermore, branch managers, registered representatives and IARs do not receive a greater or lesser compensation for the sales of products for which the Firm receives cash payments.

Clients should also be aware that marketing or educational activities paid for with these payments may lead to greater exposure of these companies' products with the Firm's registered representatives and IARs. Therefore, payments made by Strategic and Conference Partners may create an incentive, or lead to a greater likelihood, for the Firm or its IARs to recommend the Program over other advisory programs that do not include mutual funds issued by Strategic and Conference Partners. Additionally, clients should also be aware that some, or all, of the Single Fund Family Portfolios are comprised of Program Funds issued by Strategic and/or Conference Partners. Payments made by Strategic Partners and Conference Partners may create an incentive or lead to a greater likelihood, for the Firm or its IARs to recommend either a Single Fund Family Portfolio that is

made up of only Program Funds of a Strategic or a Conference Partner, or the Multi-Fund Family Portfolio, which may include Program Funds of Strategic and/or Conference Partners, over a Single Fund Family Portfolio that comprised only of Program Funds of a non-Strategic or Conference Partner.

From time to time, the Firm and its registered representatives (who may also be IARs) may also receive other compensation from mutual fund companies that may issue Program Funds. Such mutual fund companies may sponsor their own conferences for training and educational purposes, which certain of the Firm's registered representatives are invited to attend. In addition to the Firm's RRs attending these conferences without charge, these mutual fund companies may also reimburse or pay for the travel and other related expenses incurred by the Firm's RRs or reimburse a Firm's branch office for expenses related to dinners or events for clients and other miscellaneous business-related expenses incurred by registered representatives.

The Firm enters into certain agreements with various organizations and associations pursuant to which such entities endorse financial products and services offered by or through the Firm and its affiliates. Typically, such entities provide access to their members in exchange for a flat fee.

The Firm may enter into marketing arrangements with third parties (Solicitors") who will receive compensation from the Firm for referring prospective investment advisory clients to the Firm. Where required by federal or state law, each marketing arrangement will be governed by a written agreement between the Firm and the Solicitor that complies with the SEC's "cash solicitation" rule (Rule 206(4)-3). In particular, clients will be provided with copies of Part 2A of the Firm's Form ADV, a separate solicitor disclosure statement that describes the nature of the marketing or referral arrangement (including compensation features) applicable to the client being referred, and any other document required to be provided under applicable law. The fees and expenses that the Firm pays to a Solicitor under these referral arrangements are not passed on to referred clients, but depending on the circumstances, the existence of such marketing or referral arrangements may affect the amount of the Firm's overall fees or its willingness to negotiate fee reductions in particular instances.

Under these marketing arrangements, a Solicitor may introduce prospective clients to the Firm or an IAR to further discuss whether the Firm's investment advisory services, including the Program, may be appropriate for the prospective clients. The Solicitor's sole responsibility under the marketing arrangement is to refer prospective clients to the Firm or an IAR and may not provide investment advice to prospective clients or the Firm's clients on behalf of the Firm or the IARs. Additional information about this arrangement, including the relationship between the Solicitor and the Firm, the role of the Solicitor and any compensation that the Firm pays to the Solicitor for introducing prospective clients, is outlined in a separate solicitor disclosure statement, which the Solicitor will provide to prospective clients before they are introduced to the Firm or an IAR.

The Firm and certain banks and credit unions (collectively "Financial Institutions") have entered into alliance arrangements where employees of Financial Institutions may refer individuals who may be interested in learning more about the Firm's advisory services to IARs. The Firm will share a portion of the fees earned by the Firm with Financial Institutions for referring individuals who eventually

obtain advisory services from the Firm. Employees of the Financial Institutions are not authorized to provide investment advice, or discuss the features of, or qualify individuals for, advisory services, on behalf of the Firm. Employees of Financial Institutions may receive nominal compensation for referring individuals to IARs regardless of whether such individuals obtains advisory services from the Firm. The compensation paid to Financial Institutions or their employees as described herein may increase or otherwise affect the fees a customer pays for obtaining advisory services from the Firm. The fees and expenses that the Firm pays to a Financial Institution under these arrangements are not passed on to referred clients, but depending on the circumstances, the existence of such marketing or referral arrangements may affect the amount of the Firm's overall fees or its willingness to negotiate fee reductions in particular instances.

The Firm wants its clients to make an informed decision when they purchase products or receive services from a Firm's RR or IAR. Therefore, the Firm is disclosing material arrangements and any potential conflicts of interest that clients may find informative when making their decisions. In addition to providing disclosures to its clients, the Firm, on an ongoing basis, communicates, trains and/or supervises its RRs and IARs on its policies and procedures regarding conflicts of interest. Furthermore, when an RR or an IAR makes a product or program recommendation to a client, the Firm reviews whether the recommendation is suitable for the client against any financial information provided by the client, such as the client's risk tolerance, time horizon and investment objective. Nevertheless, clients should always carefully and independently review all product or program features and risks, along with any applicable disclosures before making any investment decisions.

#### ITEM 15. CUSTODY

In order to effectuate trades under the Program, Client will need to establish a brokerage account through the Firm with Pershing who will clear trades and act as custodian for client's assets under the Program. Accordingly, all trading activity in connection with the Program will generally be effected through this brokerage account with the Custodian unless Lockwood can seek best execution elsewhere as described in Lockwood's Brochure. Custodian will act in the capacity as a clearing firm and perform centralized cashiering, bookkeeping and execution clearing and settlement functions. Custodian will handle the delivery and receipt of securities purchased or sold in client's brokerage account; receive and distribute dividends and other distributions; and process exchange offers, rights offerings, warrants, tender offers and redemptions. Custodian will send client statements of all activity in client's brokerage account on no less than a quarterly basis, and written confirmations of trades executed through Client's brokerage account.

Additionally, clients have the ability to request an Account Performance Report from their IAR at any time. The report generally includes the beginning and ending account value, net contribution and withdrawals, and a rate of return for a specific time period. Clients should be aware that the Account Performance Report is not an official Account statement from the Custodian. It should be used only for informational purposes and should not be relied upon for making investment decisions or for tax purposes. Clients should promptly notify the Firm or his/her IAR upon discovery of any errors, discrepancies or irregularities.

Clients should carefully review such statements and contact the Firm or its IARs immediately upon discovery of any errors, discrepancies or irregularities.



## ITEM 16. INVESTMENT DISCRETION

Except for the selection of the money market cash sweep vehicles for the cash investment style portion of the Portfolios as described in Item 4 of this Firm Brochure, the Firm and its IARs do not have investment discretion under the Program. As described in Item 13 of this Firm Brochure and in Items 13 and 16 of the Lockwood Brochure, Lockwood has investment discretion over the assets in client's Account under the circumstances described therein

WSS earns fees on the amount of money in the Deposit Account, including Client's assets. WSS may earn a higher fee if Client assets are swept into a Deposit Account than if Client invests in a money market Program Fund. Pershing and the financial institutions that participate in the bank sweep arrangement ("Program Banks") may also earn a fee in connection with offering and/or administering the arrangement and the Deposit Account. Please refer to the Deposit Account Disclosure Document for full details. WSS is not affiliated with Pershing or any of the Program Banks. WSS and its affiliates may provide offer products and services to Pershing, Program Banks and each of their employees, offers, directors, agents and independent contractors in WSS's normal course of business..

Under the Program, clients have the opportunity to impose reasonable investment restrictions on Lockwood applicable to their assets in the Account by requesting them on the IAAA. Investment restrictions must be reasonable, as solely determined by Lockwood, and must be complete and consistent with applicable law. Lockwood will observe the investment restrictions that the Client provides in the IAAA, if deemed reasonable; provided that Lockwood reserves the right to seek further direction from the Client through the Firm before any such investment restrictions are observed. Clients may seek to impose new, or modify any existing, investment restrictions at any time by contacting their IAR.

## ITEM 17. VOTING CLIENT SECURITIES

The Firm and its IARs shall have no obligation or authority to take any action or render any advice with respect to proxies, consents, waivers or other documents with respect to any securities held by or for a client in client's Account.

Except with respect to voluntary corporate action notices, client expressly retains all responsibility for responding to proxies, consents, waivers and other documents with respect to any securities in the Program, which may be received from Pershing or the issuer's corporate communications service provider. Provided that Lockwood timely receives voluntary corporate action notices, Lockwood will determine on behalf of the client whether client's Account will participate in particular voluntary corporate actions. Lockwood will make such determinations in its full discretion, consistent with its policies and procedures. Client should refer to Item 17 in the Lockwood Brochure for additional details on its policies and procedures in this regard.

## ITEM 18. FINANCIAL INFORMATION

The Firm does not require clients who participate in the Program to prepay its fees six months or more in advance. Additionally, the Firm does not have any material financial conditions that it is required to make to clients. Clients should review the Lockwood Brochure for any disclosures that Lockwood may be required to make under this Item.