

**Wrap Fee Program Brochure**  
(Part 2A Appendix 1 of Form ADV)

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**<https://www.usbank.com/investments-wealth-management/investment-management.html>**

This Wrap Fee Program Brochure provides information about the qualifications and business practices of U.S. Bancorp Investments, Inc. (referred to as “we”, “us” or, “USBI” throughout the document). If you have any questions about the contents of this brochure, please contact us at 800-888-4700. 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 USBI also is available on the SEC’s web site at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by a unique identifying number, known as a CRD number. The CRD number for USBI is 17868.

USBI is a registered investment adviser. However, that registration does not imply a certain level of skill or training.

**March 31, 2014**

## Item 2      Material Changes

This section describes the material changes to our wrap-fee Programs since the last annual amendment of our Form ADV on April 1, 2013.

- Trade Errors – We have updated our trade error process. (See Item 9, “Additional Information”.)
- Program Changes – We have added Discretionary Programs to our current platform. (See Item 4, “Services, Fees and Compensation”; Item 5, “Account Requirements and Types of Clients”; Item 6, “Portfolio Manager Selection and Evaluation” and Item 9, “Additional Information”.)

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## Item 4 Services, Fees and Compensation

We provide investment management services through the USBI Personal Portfolios Program, also referred to as the “Program(s)”.

The Personal Portfolios Program is a group of account management programs, each of which includes the following services:

- Development of an investment strategy
- Selection of portfolios which may include mutual funds, exchange-traded funds (“ETFs”), individual equities, fixed income investments, Model Providers (registered investment advisers acting as third-party providers of research services offering purchase and sale recommendations in the form of model portfolios), sub-account managers and other investments.
- Brokerage and custodial services
- Quarterly investment performance reporting

We use Envestnet Portfolio Solutions, Inc. (“Envestnet”, or “Sub-Adviser”), a registered investment adviser and provider of asset allocation advice, as a sub-adviser and/or administrator for the Personal Portfolios Programs. We may add to these Portfolios from time to time.

### **Managed Account Strategies**

Accounts in these Programs are managed by Envestnet.

#### **Managed Account Strategies – Mutual Funds**

Within Managed Account Strategies – Mutual Funds are various sub-programs whereby the Sub-Adviser will purchase mutual funds on the client’s behalf based on the appropriate asset allocation strategy identified for the Client as a result of the information provided to the Financial Advisor. Sub-Adviser will utilize the Model Provider’s asset allocations to develop and manage an investment portfolio for the Program Account.

#### **Managed Account Strategies – General Securities**

Within Managed Account Strategies – General Securities are various sub-programs whereby the Sub-Adviser will purchase certain general securities on the client’s behalf based on the appropriate asset allocation strategy identified for the Client as a result of the information provided to the Financial Advisor. Sub-Adviser will utilize the Model Provider’s asset allocation to develop and manage an investment portfolio for the Program Account.

The mutual funds are offered on a “no-load” or “load-waived basis”. Envestnet acts as account manager on your account, with full authority to supervise and direct your investments, making fund or allocation changes as necessary. Rebalancing will be conducted as needed.

### **Advisor Select**

Accounts in this Program are directed by you. You may purchase mutual funds, ETFs, individual equities, fixed income investments and other certain securities. You will approve all transactions. Financial Advisors may recommend investment vehicles for your portfolio and will act on a non-discretionary basis. If necessary, we may place trades within your account to make cash available to debit your account for fees.

### **Advisor Select Separately Managed Account**

Accounts in this Program are directed by you. Your account will consist of sub-accounts managed by sub-account managers, who are registered investment advisers made available by Envestnet through your Financial Advisor. The recommended asset allocation and sub-account managers are based on your risk profile developed with you as a result of the information you provided to your USBI Financial

Advisor. You will select all sub-account managers and approve all transactions except for transactions made by sub-account managers who act on a discretionary basis.

### **Unified Managed Account**

Accounts in this Program are managed by Envestnet. Envestnet has arrangements with other Model Providers who provide Envestnet with purchase and sale recommendations in the form of model portfolios. Envestnet will manage a portion of your account in accordance with these specific investment strategies. Your account may consist of a combination of individual securities recommended by Model Providers, mutual funds and ETFs. Mutual Funds are purchased on a “no load” or “load-waived basis.” Recommendations for the model portfolio selection will be based on information provided by you. Envestnet has full authority to supervise and direct your investments within the parameters of the selected portfolio model. Rebalancing of the portfolio will be conducted as needed. As manager, Envestnet will coordinate the trading activity of all underlying investment products.

### **Discretionary Programs**

If you choose to participate in one of our Discretionary Programs, the discretionary Investment Advisory Agreement you enter into with USBI by signing the Statement of Investment Selection authorizes USBI to make investment decisions for your discretionary account, with the authority to determine the amount, type and timing with respect to buying and selling securities and other assets in your account, subject to your investment objective. The Agreement also grants us complete and unlimited trading authorization for the account. As a result, we are unable to accept unsolicited trade orders for execution in any account where a USBI Financial Advisor has been granted discretion. Certain securities, such as U.S. Bancorp stock, First American Funds and primary offerings underwritten by USBI, are prohibited in accounts where a USBI Financial Advisor has discretion. However, in accounts where Model Providers (who are not affiliated with U.S. Bancorp) are utilized, the unaffiliated Model Providers may recommend those securities for purchase in your accounts.

In certain circumstances, we may agree that you may limit our discretionary authority; for example we may agree to not purchase certain types of securities for your account. Accounts with restrictions may perform differently from accounts without restrictions and performance may be poorer.

USBI discretionary Financial Advisors seek to meet the client's particular investment needs by developing an investment strategy based upon guidelines that are jointly established by the client and the client's discretionary Financial Advisor. At the commencement of services, the client's discretionary Financial Advisor reviews the client's investment objectives and risk tolerance. Based upon that review and other information provided by the client, the discretionary Financial Advisor makes a subsequent recommendation to the client as to which investment style the discretionary Financial Advisor believes is appropriate for the client. The client's discretionary Financial Advisor will manage the client's discretionary account in accordance with the investment style selected based on the information the client provides to the client's discretionary Financial Advisor.

Accounts in these programs will be monitored to help ensure they are aligned with Discretionary Program guidelines. Items generally reviewed may include, but are not limited to, levels of security and cash concentration, principal transactions and trade rotation.

#### **Fund Managed Portfolio (“FMP”)**

Accounts in this Program are managed by a USBI Financial Advisor on a discretionary basis. Your account may consist of mutual funds and ETFs. Mutual Funds are purchased on a “no load” or “load-waived basis”. USBI Financial Advisors have full authority to supervise and direct your investments within the parameters of the selected portfolio model. Rebalancing of the portfolio will be conducted as deemed necessary by the Financial Advisor.

#### **Unified Managed Portfolio (“UMP”)**

Accounts in this Program are managed by a USBI Financial Advisor on a discretionary basis. Envestnet will provide certain sub-advisory services in connection with your account. The USBI Financial Advisor will build the model portfolio used for your account based on the client's needs

and objectives. Your account may consist of mutual funds, ETFs and Model Providers. Mutual Funds are purchased on a “no load” or “load-waived basis”. The USBI Financial Advisor will provide the model portfolio and any updates to Envestnet, and Envestnet will manage your account based on the model and model changes provided to Envestnet by the USBI Financial Advisor. Envestnet will have full authority to supervise and direct your investments within the parameters of the selected portfolio model. Rebalancing of the portfolio will be conducted as deemed necessary by the Financial Advisor. As manager, Envestnet will coordinate the trading activity of all underlying investment products. USBI will vote proxies on your behalf.

## Portfolio Fees

You will pay an asset-based fee for the services received. Under certain circumstances, the portfolio fee is negotiable and is agreed upon by you and your Financial Advisor. The following are some examples when the fee may be negotiable:

- Overall relationship with U.S. Bancorp
- Total client assets under a Program account
- Types of investments or strategies being utilized

The portfolio fee is based on various factors including the specific services being provided, the type and size of your account, historical or anticipated transaction activity, and the range of additional services provided to your account.

The portfolio fee represents payment for the following services:

- Development and ongoing management of asset allocation and investment strategies
- Sub-account manager and Model Provider search, due diligence and monitoring services
- Investment company due diligence and monitoring services
- Portfolio manager investment management services
- Account administration and reconciliation services
- Clearing and custody charges
- Brokerage execution services
- Monthly custodial statement with transactional activity, otherwise quarterly
- Quarterly evaluation of investment performance
- Tax reporting
- Advice provided by your Financial Advisor and Sub-Adviser

## Fee Schedule

### Non-Discretionary Programs

Assets	Managed Account Strategies MAS - Mutual Funds	MAS - General Securities	Advisor Select Account	Advisor Select Separately Managed Accounts	Unified Managed Account
First \$250,000	1.70%	2.50%	2.00%	2.75%	2.50%
Next \$250,000	1.60%	2.25%	1.80%	2.50%	2.25%
Next \$500,000	1.50%	2.00%	1.60%	2.25%	2.00%
Next \$1,000,000	1.30%	1.75%	1.35%	2.00%	1.75%
Amounts over \$2,000,000	1.00%	1.50%	1.10%	1.75%	1.50%

## Discretionary Programs

<b>Assets</b>	<b>Fund Managed Portfolio</b>
First \$250,000	2.00%
Next \$250,000	1.80%
Next \$500,000	1.60%
Next \$1,000,000	1.35%
Amounts over \$2,000,000	1.10%

<b>Assets</b>	<b>Unified Managed Portfolio</b>
\$0 - \$250,000	2.90%
\$250,001 - \$500,000	2.75%
\$500,001 - \$1,000,000	2.60%
\$1,000,001 - \$2,000,000	2.35%
Over \$2,000,000	2.10%

## General Information about Fees

Fees are quoted as an annualized percentage of assets. For non-discretionary and Fund Managed Portfolio accounts, fees are blended, which means that as the portfolio value reaches each threshold in the above tables, the assets above that threshold are charged successively lower percentages. For Unified Managed Portfolio accounts, fees are billed on a breakpoint basis. All Unified Managed Portfolio account assets are billed at the same asset level percentage as they reach a threshold.

Fees will be based on the value of the assets in the Program Account. For this purpose, asset value means the average fair market value of the eligible securities in your Program account, including where applicable, the value of margin loans and options, dividends and accrued interest.

At your direction, you can link together multiple Program accounts for yourself and family members to qualify for a fee breakpoint. Model Provider and sub-account manager fees are included in the portfolio fee. Their portion of the fee is set by each Model Provider and sub-account manager and will vary. Typically this ranges between .25 - .75% depending on the size of the account and type of services provided.

You should consider that the portfolio fee may be more or less than the cost of services if they were provided separately or from another source. This can depend on several things such as the amount of the portfolio fee, the amount of activity in your account, the value of custodial and other services. You will also receive the value of the consulting service provided by your Financial Advisor and Sub-Advisor in designing and monitoring your investment strategy. They will also assist you with periodically determining your asset allocation as well as the suitability of the Model Providers and/or sub-account managers. To determine the reasonableness of the fee, you should consider the costs of the development and ongoing management of an asset allocation or investment strategy, the gathering and monitoring of information on Model Providers, transaction costs, fees and taxes, commissions or markups/markdowns on transactions, custodial costs, quarterly performance reports, and tax statements.

Custodial fees are included in the portfolio fee except for items such as: interest on debit balances, the public offering price for securities purchased in a distribution, exchange fees, regulatory transaction fees, transfer taxes, liquidation fees for non-cash assets brought to a Program, electronic fund and wire transfer fees, trade-away charges, trust service charges, and short-term redemption fees. Mutual funds and ETFs also charge their own management fees and expenses which are disclosed in the fund's

prospectus. We will also charge interest on any outstanding margin loan balances to clients who borrow money from us. In addition, rebalancing will not occur if the account has a margin debt.

## Billing

Quarterly reports holdings and statement of management fees display a total account value less any margin loans held in your account. Because the billing calculation does not deduct the value of margin loans, the amount on which we calculate your fee may be higher than the account value displayed on your report.

For example:

If you have \$1,000,000 in assets and use a margin loan to purchase an additional \$50,000 in securities, the billable account value will be \$1,050,000. The report value will be \$1,000,000.

## Closing your Advisor Select Account

For Advisor Select, we may choose to cover all existing short positions when you close your Advisor Select Account. Those liquidations will be executed in our capacity as broker dealer and creditor and may, as permitted by law, result in executions on a principal basis in your Program account. Upon termination, you are responsible for monitoring the securities in your Program account, and neither USBI nor your Financial Advisor will have any further obligation to act or offer advice with regard to those assets.

## Advisor Compensation

Your Financial Advisor will receive compensation for your participation in the Program. This may be more than what the Financial Advisor would receive if you participated in other investment services or paid separately for investment advice, brokerage, and other services. As such, your Financial Advisor may have a financial incentive to recommend the Program over other programs or services.

# Item 5 Account Requirements and Types of Clients

The minimum account size generally required for accounts is listed below. Under certain circumstances, accounts may be opened with lower amounts.

## Non-Discretionary Programs

Managed Account Strategies MAS – Mutual Funds	MAS – General Securities	Advisor Select Account	Advisor Select Separately Managed Accounts	Unified Managed Account
\$50,000	\$75,000	\$50,000	\$100,000 *	\$250,000

## Discretionary Programs

Fund Managed Portfolio	Unified Managed Portfolio
\$50,000	\$250,000 **

\*Some sub-account managers have higher minimums.

\*\* Account minimum may be higher based on allocations and Model Providers chosen.

We provide advisory services to a wide range of clients including individuals, pension and profit-sharing plans, trusts, estates, charitable organizations, corporations and other businesses.



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

Depending on the Program, either Envestnet, a registered investment adviser, or USBI, will provide due diligence, selection and monitoring of Model Providers. Model Providers are selected for each of our Programs based on a number of factors which may include:

- Referrals from consultants
- Periodicals and databases containing information about Model Providers
- Analysis of portfolio returns
- Review of the Model Provider's disclosure brochure
- Contact with clients and references provided by the Model Provider
- On-site visits to the Model Provider

Envestnet will typically not recommend an affiliated Model Provider.

If you would like to have some of your assets managed by an investment adviser who is not recommended by us, they may manage your assets as a provisional manager for a period of time while the Sub-Adviser conducts its normal review. In general, we will not provide any investment advice to you regarding the provisional manager or your assets until the provisional manager has been approved. If the provisional manager is not accepted, you will need to choose an approved Model Provider. Your assets will become unmanaged until you choose a new approved Model Provider.

On an ongoing basis, the performance of each Model Provider is monitored relative to major market indices and to comparable style indices. This monitoring also usually includes a review of the Model Provider's absolute performance, the risk-adjusted performance and the attributes of the performance, including a study of the equity selections, asset allocations, and the style and sector emphasis of the Model Provider.

When necessary, we may recommend that you terminate a Model Provider and will usually recommend a replacement. Reasons for the recommended termination may include one or more of the following: ownership changes, key employee turnover, adverse or wrongly focused performance record, manager capacity, changes in investment philosophy, failure to follow the stated investment discipline or other similar concerns.

We will make available to you a quarterly evaluation of investment performance prepared by Envestnet using a time-weighted calculation standard to adjust for significant asset flows into the account. Other generally accepted methods of calculation exist which may yield different results. Performance information provided by Model Providers and mutual funds is not verified by us.

USBI Financial Advisors must qualify for participation in our Discretionary Programs. Qualification may be based on past experience, training, and/or education. Additional product training is required prior to participation.

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### **Advisory Business**

#### **Types of Advisory Services Offered**

We offer two types of advisory services for individuals, businesses and institutional clients: managed account services, which may include selection of other advisers, and financial planning services. We do not specialize in any one type of advisory service. This document will focus on our managed account services. A separate document that explains our financial planning services is available with our financial plans, or is available upon request.

Investment advisory services create a fiduciary relationship with you. This means that we must place your interests above our own. This brochure explains your rights and obligations in providing you with advisory services. Please read it carefully and keep it for your records. Please note that although we act as your investment adviser in providing services to you, this does not affect any other relationship you may have with your Financial Advisor or USBI. The nature of your existing USBI accounts, your rights and obligations relating to these accounts, and the terms and conditions of any USBI account agreement in effect does not change in any way. Generally, unless you are participating in our advisory program, we will implement securities transactions in our capacity as a broker-dealer. You will be charged any applicable fees for effecting transactions you choose to make, including commissions, a portion of which will be passed to your Financial Advisor.

### **Tailored Advice when Using Personal Portfolios Program**

Our group of managed account services is called the Personal Portfolios Program, also referred to as the "Program(s)" throughout this document.

We provide individually tailored solutions and continuous advice to you regarding your investments based on your individual needs. We do this through personal discussions with you, in which goals and objectives are discussed. During this data gathering process, we will determine your investment objectives, risk tolerance, anticipated contributions and withdrawals, the importance of liquidity to you, and your income, as well as other factors. You may also place any reasonable restrictions on investing in certain securities, types of securities or industry sectors. You should understand that those restrictions will likely impact the performance of your Programs. We will develop a strategy based on your risk profile.

### **Description of Managed Account Services**

Each Personal Portfolios Program includes the development of an asset allocation, and construction of portfolios which may include mutual funds, ETFs, individual equities, fixed income investments, structured products, Model Providers and sub-account managers, as well as other investments. In addition, brokerage and custodial services provided by USBI are part of the Personal Portfolios Program. These Programs are offered on a wrap fee basis, in either a discretionary or non-discretionary relationship. This means that one fee is charged that includes investment advisory services, custodial services, sponsorship and brokerage execution, including commissions. We receive a portion of the fee for our services.

When USBI has discretion, the USBI Financial Advisor acts with discretionary authority to determine the securities and amount to be bought/sold. Consistent with our policies and as a best practice, Financial Advisors strive to balance fair and equitable allocation with best execution in trade allocations to client accounts.

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### **Performance-Based Fees and Side-By-Side Management**

We do not use a performance-based fee structure. As previously explained, our fees are based on a percentage of assets managed.

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### **Methods of Analysis, Investment Strategies and Risk of Loss**

#### **Methods of Analysis and Investment Strategy**

Your personal investment strategy is based on the objectives you discuss with your Financial Advisor and may be different for each of your accounts. Investment strategies may include asset allocation, long-term purchases, short-term purchases, trading and other strategies your Financial Advisor will discuss with

you. It is important to keep your Financial Advisor updated when any of your information changes so your goals and objectives can be updated accordingly.

Financial Advisors have access to a variety of tools that help them determine your investment objectives, time horizons and other factors. These tools help your Financial Advisor reach an investment strategy based on your individual needs. In addition, Financial Advisors have access to information from third party providers of research services. Financial Advisors are not required to follow any specific research and may, when you authorize discretion, take positions for your account that contradict the research issued by these third party providers of research services.

As a normal course of business, the investment portfolios offered by us are wrap fee accounts. However, based on individual circumstances, it may be in your best interest to use an account that is outside of this strategy and move to a brokerage account and pay commissions per trade.

### **Investing in Securities Involves Risk**

All securities and investment strategies carry some level of risk. You may lose money as the value of the security fluctuates. You should be prepared to bear the risk for each type of security in which you invest, including the possibility of losing some or all of your invested money. Thinking about long-term investment strategies and tolerance for risk can help determine what type of investment is best suited for you. Keep in mind past performance of securities is not a reliable indicator of future performance.

Depending on the types of securities you invest in, you may face some of the following investment risks:

- **Interest Rate Risk:** Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds become less appealing, causing their market values to decline.
- **Market Risk:** Prices of an equity, bond, or mutual fund may drop in reaction to tangible and intangible events and conditions. This risk can be caused by things independent of the security's underlying circumstances. Political, economic and social conditions may trigger market events.
- **Inflation Risk:** When any type of inflation is present, your dollar today will have less purchasing power than it will tomorrow because it is eroding at that rate of inflation.
- **Currency Risk:** Overseas investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This is also referred to as exchange rate risk.
- **Reinvestment Risk:** This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e. interest rate). This primarily relates to fixed income securities.
- **Fixed Income Risk:** Portfolios that invest in fixed income securities are subject to several general risks, including interest rate risk and market risk. These risks may occur from fluctuations in interest rates, a change to an issuer's individual situation or industry, or events in the financial markets.
- **Structured Products Risk:** These products often involve a significant amount of risk and may only be appropriate for our clients who can carry such risk. Those clients should carefully read and consider the product's offering documents, as they are often based on derivatives. Structured products are intended to be "buy and hold" investments and are not liquid instruments.
- **Small and Mid-Cap Risk:** Stocks of small or emerging companies may have less liquidity than those of larger, established companies and may be subject to greater price volatility and risk than the overall stock market.
- **Diversification Risk:** Investments that are concentrated in one or few industries or sectors may involve more risk than more diversified investments, including the potential for greater volatility.

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## **Voting Client Securities**

As a matter of policy, in USBI non-discretionary and Fund Managed Portfolio accounts we do not vote proxies on your behalf. We provide no advice to you for specific voting issues. Generally, you retain sole responsibility for voting. You will receive proxies and other company solicitations for the securities you own from the custodian or transfer agent.

However, the Unified Managed Account, in which Envestnet has discretion, may require that proxy voting be handled by another party. In those situations, you may obtain a copy of the appropriate proxy voting policy upon request and without charge.

For the Unified Managed Portfolio (USBI discretionary) accounts, the Investment Advisory Agreement you enter into with USBI by signing the Statement of Investment Selection authorizes USBI to vote proxies with respect to securities held in your account. We do not permit you to direct particular votes once you have granted USBI discretionary voting authority. We will vote proxies in accordance with our established policies and procedures, which were created to reasonably ensure that votes cast are in the client's economic interest. Subject to exceptions as noted below, it is our policy to vote client shares based on the recommendations of Glass-Lewis & Co. Glass-Lewis & Co. is an independent third party research provider that issues recommendations based on their own internal guidelines. Relying on Glass-Lewis & Co. recommendations assists our firm in limiting the possible conflicts of interest between USBI and our clients. If you hold similar securities elsewhere, or with an affiliate, it is possible that a given proxy vote for your account with us could differ from the vote on an account held elsewhere.

There may be situations whereby Glass-Lewis & Co. does not provide a recommendation for voting. In those cases, USBI may consult affiliates to assist in analyzing the impact to clients to inform its decision in voting the shares.

All votes will be cast using the electronic voting platform of ProxyEdge, a third party service provider offered by Broadridge Financial Solutions, Inc. USBI has engaged the ProxyEdge services for vote execution and record keeping.

Clients may obtain a copy of our Proxy Voting policies and procedures upon request. If you have questions regarding voting proxies in general, or wish to obtain information concerning how securities in your account were voted, please contact your Financial Advisor.

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

You and your Financial Advisor will discuss your objectives, risk tolerance, anticipated contributions and withdrawals, the importance of liquidity, income, growth, and safety of principal, as well as any reasonable restrictions that you may wish to impose on your account. If applicable to the Program(s) you choose, relevant information including your investment strategies or allocations will be shared with the sub-account managers of the Program you choose. This information may be shared with some of their employees. You should tell your Financial Advisor immediately of any significant change in your financial circumstances. You will be asked if you wish to change any investment instructions on your account. This information may also be shared with your account sub-account managers.

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

If you need to contact your sub-account manager(s), it is preferred that you do so through your Financial Advisor.

## Item 9 Additional Information

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### Disciplinary Information

In the past ten years, we have not been involved in any material disciplinary events as an investment adviser. The disciplinary event listed below is related to the activities of USBI acting in our capacity as a broker-dealer.

#### Auction Rate Securities

FINRA alleged the following rule violations:

NASD rules 2110, 2211, and 3010(a) and 3010(b) and MSRB rule G-27:

- Used sales materials that were not fair and balanced and did not provide a sound basis for evaluating the facts in regard to purchases of Auction Rate Securities (ARS).
- The materials used failed to adequately disclose the risks of investing in ARS, that investments in ARS could become illiquid, and that customers might be unable to obtain access to funds invested in ARS for substantial periods of time.
- Failed to establish and maintain adequate procedures, including written procedures, reasonably designed to ensure that we marketed and sold ARS in compliance with federal securities laws and applicable NASD and/or MSRB rules.
- Failed to maintain procedures reasonably designed to ensure registered representatives accurately described ARS during sales presentations and that representatives provided customers with adequate disclosure of the risks of ARS, including the risk that ARS auctions could fail and investments could become illiquid.
- Added ARS to our approved product list without using our usual due diligence process.
- Failed to provide adequate training to registered representatives regarding the features and characteristics of ARS and the differences between ARS and other investments.

We submitted a letter of Acceptance, Waiver & Consent for the purpose of proposing a settlement of the alleged rule violations previously described. Without admitting or denying the allegations, we agreed to a censure and fine of \$275,000. The terms of the letter of Acceptance, Waiver & Consent were accepted by FINRA on 2-12-10. The fine was paid on 3-9-10.

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### Other Financial Industry Activities and Affiliations

We are an affiliate of U.S. Bank, National Association, a national bank providing traditional banking and trust services. Our Financial Advisors and other personnel are registered with FINRA, Financial Industry Regulatory Authority, under our Broker Dealer. In addition to providing financial advice to clients, some Financial Advisors may offer insurance and investment products through our affiliates. Financial Advisors may also be licensed insurance agents of our insurance agency affiliates; U.S. Bancorp Insurance Services, LLC, U.S. Bancorp Insurance and Investments, Inc., and/or U.S. Bancorp Insurance Services of Montana, Inc.

Financial Advisors may refer clients who request portfolio management and trust services to our affiliates. In certain instances, there will be a revenue sharing arrangement in place, which could create a conflict of interest. Clients may incur additional charges for such services provided by affiliates.

Except in ERISA accounts and our Discretionary Programs, Financial Advisors may utilize First American Money Market Funds, mutual funds that are advised by U.S. Bancorp Asset Management, Inc., an affiliate. Mutual funds, including First American Money Market Funds, charge their own management and other fees as set forth in the fund's prospectus. Additionally, Financial Advisors may utilize mutual funds

that are distributed by Quasar Distributors, LLC, which is an affiliate. Quasar charges fees that are paid by the mutual funds they distribute, as disclosed in the mutual fund's prospectus.

First American Money Market Funds are not available in qualified accounts or in discretionary accounts.

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## **Code of Ethics**

Financial Advisors are subject to the U.S. Bancorp Investments, Inc. Code of Ethics ("the Code"). We understand that our business is built on trust – trust between you and us, our suppliers, our business partners and one another. The Code covers a wide range of business practices and procedures for carrying out each employee's responsibilities on our behalf and observing the highest standards of ethical conduct. Our employees must conduct themselves according to these standards and must seek to avoid even the appearance of improper behavior. Our employees are responsible for reviewing the Code annually and for acting in compliance with the Code.

In addition to the Code, all of our employees also agree to abide by the U.S. Bank Code of Ethics and Business Conduct. It represents building values of our organization and helps instill ethically sound behavior and accountability among our employees. Every employee certifies compliance with our standards annually.

We will provide copies of both upon request.

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## **Participation or Interest in Client Transactions, Margin and Lending, Personal Trading and Trade Errors**

### **Participation or Interest in Client Transactions**

As a matter of practice, we make investments in various securities for our benefit, but these securities are not offered to our retail clients. There is no discussion that occurs between our traders who handle our client orders and the traders that handle our business, because we consider that self-dealing. As such, we generally do not trade securities with you on a principal basis without your consent.

Should a situation arise that an investment made for our benefit was considered appropriate for retail clients, the investment would go through a rigorous due diligence process to ensure it was an appropriate investment. Also, your risk tolerance would need to be matched with the risk of the investment.

### **Margin and Lending**

We may, from time to time, approve margin on an exception basis when requested by a client or for use in specialized strategies available in non-retirement Advisor Select and/or certain discretionary accounts.

Using margin in a non-retirement Program account is considered a more aggressive, higher risk approach to pursuing your investment objectives. Before you decide to use margin in your non-retirement Program account, you must carefully consider:

- Whether or not you can afford, and want, to assume the additional risks that losses in your account may be significantly greater than if you decide not to invest with borrowed funds.
- That the use of leverage will increase your costs of investing, as well as your risks, and depending upon the return achieved through the use of margin, may make your investment objectives more difficult to realize.
- If we provide a margin loan to you, you will pay us interest on the outstanding loan balance. Since the wrap fee is calculated as a percentage of assets under management, the use of margin to purchase securities will generally increase the amount of (but not the percentage of) the wrap



fee that you pay to us. This will result in additional compensation to us, your Financial Advisor and Envestnet.

The decision to use leverage in a Program account rests with you and should only be made if you understand:

- The risks of margin borrowing and the impact of the use of borrowed funds as it relates to leverage
- How the use of margin may affect your ability to achieve investment objectives
- You may lose more than your original investment
- You may not benefit from using margin in a Program account if the performance of your account does not exceed the interest expense being charged on the loan plus the additional wrap account fees incurred by your account as a result of the deposit of loan proceeds.

You should also understand the risks of default. Clients with margin accounts may need to deposit additional cash or collateral or repay all or part of the margin loan if the value of the portfolio declines below the required loan-to-value ratio.

Failure to promptly meet a request for additional collateral or repayment or other circumstances (i.e. a rapidly declining market) could cause us to liquidate, at our discretion, some or all of your funds to meet the margin loan requirements. Depending upon market conditions, the prices obtained for the securities may be less than favorable. Liquidations may impact your long-term investment objectives and may result in adverse tax consequences.

Neither USBI nor its Financial Advisors will act as your investment adviser with respect to the liquidation of securities held in an advisory account to meet a margin call. As creditors, USBI or its affiliates may have interests that are adverse to you. Liquidations will be executed in our capacity as a broker-dealer and creditor and may, as permitted by law, result in executions on a principal basis in your account.

### **Personal Trading**

Our Code of Ethics prohibits use of material non-public information and regulates personal securities trading by employees.

From time to time, Financial Advisors and other employees of ours may purchase securities for their personal accounts that are available to our clients. These Financial Advisors will not compete with clients in connection with such transactions.

Our Financial Advisors' personal trading accounts are monitored so that you are treated fairly, and the securities purchased for you are done so prior to a Financial Advisor personal transaction.

### **Trade Errors**

It is USBI policy that if there is a trade error for which USBI is responsible, trades will be adjusted or reversed as needed in order to put the client's account in the position that it would have been in as if the error had not occurred. Errors caused by USBI Advisors or USBI will be corrected at no cost to client's account, with the client's account not recognizing any loss from the error. The client's account will be compensated for any losses incurred as a result of any such error. If the trade error results in a gain, the gain may be retained by USBI but such gain is not given to or shared with any USBI Advisors or USBI associate. For ERISA covered accounts, this gain is considered additional compensation for ERISA Section 408(b)(2) purposes.

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## **Review of Accounts**

We have various policies and procedures applicable to the review and supervision of client accounts in our Programs. Those policies are designed to comply with the requirements of the Investment Advisers Act of 1940, and where applicable, ERISA and other applicable rules and regulations.

We generally review the managed accounts at least annually. Your Financial Advisor will review your accounts with you. At any time you will need to inform us of any changes in your financial condition, goals or objectives that would affect the management of your account. During this review, the Financial Advisor may recommend changes in that reflect the changing needs of your situation. If it is determined that your account would be better suited for a brokerage account under our Broker Dealer, we will end our advisory relationship and move your account. This is monitored on a case by case basis.

Periodically, reviews are conducted on selected accounts to conform to company policies and procedures. In addition, we review a percentage of accounts on a random basis during the year.

We will review your account at any time you request.

We offer a detailed consolidated quarterly investment performance evaluation report. In addition, you will receive a periodic brokerage statement from the custodian reflecting all the holdings and activity in your account during the previous month, unless you specify otherwise. We urge you to compare our reports with the statements received from the custodian.

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## **Client Referrals and Other Compensation**

Financial Advisors may receive compensation for referrals made to our affiliates. From time to time, U.S. Bank, National Association, an affiliate, may pay a nominal fee to their employees to refer clients to us that may result in advisory services.

From time to time, we may offer an incentive program to our Financial Advisors to encourage an increase in assets under management or an increase in sales. These programs may include sales awards such as trips or other prizes. In addition, some Financial Advisors may be eligible for other compensation upon joining our firm. This could include an upfront cash advance subject to a repayment agreement, one or more backend bonuses, or both.

We also have solicitation arrangements under which either we and/or our Financial Advisor may receive compensation for referring clients to a third party who will provide investment advisory or other services to the client. The compensation we receive is usually a portion of the advisory fee the third party receives from its clients. It is our practice to disclose to the client being referred the terms of the arrangement, including the maximum compensation payable to us and/or our Financial Advisors or a third party, as the case may be.

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## **Financial Information**

We have no financial condition that is likely to impair our ability to meet contractual commitments to clients.