

August 1, 2017

## **Commonwealth Financial Network<sup>®</sup>**

### **FORM ADV – PART 2A**

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This Brochure provides information about the qualifications and business practices of Commonwealth Financial Network<sup>®</sup> (“Commonwealth”). If you have any questions about the contents of this Brochure, please call us at 800.237.0081 or e-mail us at ***FormADVPart2@commonwealth.com***. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

Commonwealth is a Registered Investment Adviser. Registration of an investment adviser does not imply any level of skill or training.

Additional information about Commonwealth is available on the SEC’s website at ***www.adviserinfo.sec.gov***.

## Item 2      Material Changes

The following is a summary of the material changes made to this Brochure on and since the last annual update that we made on March 28, 2016:

- Commonwealth has updated the Advisory Business section to reflect the following:
  - We have updated the number of advisors associated with Commonwealth's broker/dealer to more than 2,000.
  - We have updated the number of advisors registered with Commonwealth's Registered Investment Adviser as Investment Adviser Representatives to more than 1,900.
  - We have updated information to indicate that Commonwealth Financial Network is a wholly owned subsidiary of 1979 Holding Company, LLC.
  - We have removed the Preferred Portfolio Services® ("PPS") Direct Efficient Advisors Model Strategies Program from Part 2A Appendix 1: The Wrap Fee Program Brochure.
  - We have added the PPS Direct American Funds Model Portfolios Program to Part 2A Appendix 1: The Wrap Fee Program Brochure.
  - We have added the PPS Direct BlackRock Long Horizon ETF Managed Portfolio Series Program to Part 2A Appendix 1: The Wrap Fee Program Brochure.
  - We have renamed the PPS Custom TIAA-CREF Program to the PPS Custom Program (TIAA).
  - We have added the PPS Custom Program (Platform) to the "Wrap" Program description.
- Commonwealth has updated the Fees and Compensation section to reflect the program fee associated with the PPS Custom Program (Platform).
- Commonwealth has updated the Types of Clients section to reflect the updated account minimums of \$10,000 for PPS Select Active model portfolios and \$1,000 for PPS Select Passive model portfolios.
- Commonwealth has updated the Brokerage Practices section to reflect that managers within the PPS Direct Envestnet Program may possess the ability to execute "step-out" transactions.
- Commonwealth has updated the Client Referrals and Other Compensation section to reflect the current nature of the support and additional compensation Commonwealth receives from third parties.

You may request a copy of our current Brochure at any time, without charge, by calling us at 800.237.0081 or e-mailing us at ***FormADVPart2@commonwealth.com***.

Additional information about Commonwealth is available via the SEC's Investment Adviser Public Disclosure website at ***www.adviserinfo.sec.gov***. The SEC's website also provides information about any persons affiliated with Commonwealth who are registered, or are required to be registered, as Investment Adviser Representatives of Commonwealth.

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## **Item 4            Advisory Business**

### **A. About Us**

Joseph S. Deitch founded Commonwealth, a broker/dealer, in 1979 as an outgrowth of his retail financial planning practice under the original name of The Cambridge Group. After the company began to prosper, Joe adopted the Commonwealth name in 1981 to reflect the company's desire to foster the common good of our employees and advisors. Commonwealth has more than 2,000 advisors associated with its broker/dealer. Of those 2,000 advisors, more than 1,900 are also registered with Commonwealth's Registered Investment Adviser as Investment Adviser Representatives.

Commonwealth Financial Network is a wholly owned subsidiary of 1979 Holding Company, LLC, an indirect and wholly owned subsidiary of CFN Holding Company, Inc. Joseph S. Deitch, chairman of Commonwealth, serves as trustee of the Matthew Fletcher Deitch 2010 Family Gift Trust, which owns 25% or more of CFN Holding Company, Inc.

When Joe founded Commonwealth, his desire was to create an open and supportive environment where professionals could be true to themselves and to their clients, follow their dreams, and grow to their hearts' content. Joe structured Commonwealth as an independent contractor financial services firm with the goal of providing indispensable service to Commonwealth-affiliated financial advisors so that they, in turn, could provide the same level of indispensable service to their clients. To that end, Commonwealth acts as a "back office" to our advisors, providing support, guidance, and oversight over many functional areas, including operations, trading, technology, investment management, marketing, compliance, practice management, and more. Commonwealth does not manufacture or sell proprietary products. Rather, Commonwealth's advisors have the freedom to evaluate their clients' individual financial objectives, risk tolerance, and investment time horizons and recommend those products and services that they believe will help their clients meet their financial goals.

### **B. Description of Services Available**

Commonwealth offers a suite of investment advisory services and programs to its advisors for use with their clients. Commonwealth's investment advisory services and programs are designed to accommodate a wide range of client investment philosophies, goals, needs, and investment objectives. Through Commonwealth's various advisory programs and services, clients have access to a wide range of securities products, including, but not limited to, common and preferred stocks; municipal, corporate, and government fixed income securities; limited partnerships; mutual funds; exchange-traded products ("ETPs"); options and derivatives; unit investment trusts ("UITs"); and variable insurance products, as well as other products and services, including a variety of asset allocation services, financial planning, and consulting services. Commonwealth advisors may also offer advice related to Commonwealth-approved direct participation programs, private placements, and other alternative investments, such as alternative energy programs, research and development programs, leasing programs, real estate programs, and pooled commodities futures programs.

Commonwealth's investment advisory services and programs consist of Commonwealth's suite of Preferred Portfolio Services® programs ("PPS Program"), wealth management and retirement consulting services, and advisory services programs available through unaffiliated third-party asset managers ("TPAMs").

Commonwealth is the sponsor of the following PPS programs:

- **PPS Custom:** The PPS Custom Program enables a Commonwealth advisor to assist the client in developing a personalized investment portfolio using a variety of security types, including, but not limited to, stocks, bonds, mutual funds, exchange-traded funds ("ETFs"), UITs, and derivatives. The advisor typically acts as portfolio manager, with full investment discretion, although clients may elect to have the advisor manage the account on a nondiscretionary basis.
- **PPS Select:** The PPS Select Program offers a variety of model portfolios from which investors may choose. The PPS Select model portfolios are created and managed by Commonwealth's Investment Management and Research team. The client's advisor will help the client determine which PPS Select models are best suited for the client based on his or her risk profile, investment objectives, and preferences, leaving the actual investment decisions to Commonwealth's Investment Management and Research team. PPS Select offers a variety of model portfolios with varying investment product types, including mutual fund and ETF portfolios, fixed income portfolios, and variable annuity subaccount portfolios.
- **PPS Direct:** The PPS Direct Program offers advisors' clients access to a variety of model portfolios with varying levels of risk from which they may choose. The PPS Direct portfolios are not managed by Commonwealth or the client's financial advisor. Rather, PPS Direct model portfolios are managed by one or more third-party portfolio managers on a discretionary basis. PPS Direct portfolios may consist of mutual funds or ETFs, or they may be made up of individual equities and/or fixed income securities. There are four types of PPS Direct Program accounts, which are broadly described as follows:
  - **PPS Direct Mutual Fund/ETF:** As the name suggests, these types of accounts may be allocated among mutual funds or ETFs.
  - **PPS Direct Separately Managed Account ("SMA"):** A separate account strategy that invests in individual securities (e.g., stocks and bonds).
  - **PPS Direct Third-Party Fund Strategist ("Strategist"):** A program that offers asset allocation models comprising mutual funds and ETFs provided by third-party money managers.
  - **PPS Direct Unified Managed Account ("UMA"):** Best described as multiple SMAs in a single account.

Consulting services available include:

- **Wealth Management Consulting:** Commonwealth advisors may provide advisory consulting services relating to securities and investments on a wide range of topics, including, but not limited to, comprehensive financial planning, budgeting and cash flow analysis, major purchases, education planning, retirement income/longevity planning, portfolio analysis, estate planning analysis, investment analysis, business succession planning, and fringe benefit analysis. Clients may engage Commonwealth advisors for consulting services on a negotiated hourly, flat, or fixed-fee basis. Fees may be paid at the time of service, in advance of service, or after service has been rendered. If fees are being charged on an hourly basis, they may not exceed \$500 per hour.
- **Retirement Plan Consulting:** Commonwealth offers its qualified advisors a fee-for-service consulting program whereby advisors may offer one-time or ongoing advisory services to qualified retirement plans. Clients may engage Commonwealth advisors for Retirement Plan Consulting services on a negotiated hourly, flat, fixed, or asset-based fee basis. The maximum annual account consulting fee, when stated as a percentage of assets, is 2% and is negotiable. Fees may be paid at the time of service, in advance of service, or after service has been rendered. If fees are being charged on an hourly basis, they may not exceed \$500 per hour. Through the Retirement Plan Consulting Program, qualified advisors may assist plan sponsors with their fiduciary duties and provide individualized advice based upon the particular needs of the plan and/or plan participants regarding investment management matters, such as:
  - Investment Policy Statement support
  - Investment selection and monitoring
  - Overall portfolio composition
  - Participant advice programs

Commonwealth also offers advisors' clients access to certain TPAM programs, which provide access to professional third-party money managers that are outside the scope of the PPS umbrella. Similar to Commonwealth's PPS Direct Program described above, TPAM programs offer advisors' clients access to a variety of portfolio managers that create and implement model portfolios with varying levels of risk from which investors may choose. TPAM program accounts are not managed by Commonwealth or the client's financial advisor. Rather, TPAM Program accounts are managed by one or more third-party portfolio managers on a discretionary basis, and they may consist of a variety of different securities types, including stocks, bonds, ETFs, mutual funds, and derivatives. Account minimums for TPAM Program accounts generally range between \$25,000 and \$50,000.

Commonwealth may act in either a "solicitor" or "subadviser" capacity when making TPAM programs available to advisors' clients, as described below:

- **Solicitor:** When acting as a solicitor for the TPAM Program sponsor, neither Commonwealth nor your Commonwealth advisor provides investment advisory services in relation to the TPAM Program. Instead, your advisor will assist you in selecting one or more TPAM programs believed to be suitable for you based on your stated financial situation, investment objectives, and financial goals. Commonwealth and your advisor

are compensated for referring you to the TPAM Program. This compensation generally takes the form of the TPAM sharing a percentage of the advisory fee that you pay to the TPAM Program sponsor with Commonwealth and your advisor. When we act as a solicitor for a TPAM Program, you will receive a written solicitor disclosure statement describing the nature of our relationship with the TPAM Program, if any; the terms of our compensation arrangement with the TPAM Program, including a description of the compensation that we will receive for referring you to the TPAM Program; and the amount, if any, that you will be charged, in addition to the advisory fee that you will pay to the TPAM as a result of our referral of you to the TPAM Program, if applicable.

- **Adviser or Subadviser:** Under an adviser or subadviser relationship between Commonwealth and the sponsor of the TPAM Program, Commonwealth and your advisor will fulfill the role of an adviser or subadviser to you. We will provide you with portfolio management supervisory services with respect to the adviser or subadviser TPAM programs you select. That means that we will monitor the TPAM Program's performance, investment selection, and continued suitability for your portfolio and will advise you accordingly. Your advisor will help you determine your risk tolerance, investment goals, and other relevant guidelines in order to help you choose a TPAM Program that appears to satisfy your investment needs.

The specific advisory program selected by the client may cost the client more or less than purchasing program services separately. Factors that bear upon the cost of a particular advisory program in relation to the cost of the same services purchased separately include, but may not be limited to, the type and size of the account, the historical or expected size or number of trades for the account, the types of securities and strategies involved, and the number and range of supplementary advisory and client-related services provided to the account.

Investment recommendations and advice offered by Commonwealth and its advisors do not constitute legal, tax, or accounting advice. Clients should coordinate and discuss the impact of the financial advice they receive from a Commonwealth advisor with their attorney and accountant. Clients should also inform their advisor promptly of any changes in their financial situation, investment goals, needs, or objectives. Failure to notify the advisor of any material changes could result in investment advice not meeting the changing needs of the client.

In some cases, an independent investment adviser may engage the investment advisory services of a Commonwealth advisor to manage a portion of the investment adviser's client accounts within the PPS Custom Program.

### **C. Individualized Services and Client-Imposed Restrictions**

The investment advisory services provided by Commonwealth advisors depend largely on the personal information the client provides to the advisor. For Commonwealth advisors to provide appropriate investment advice to, or, in the case of discretionary accounts, make appropriate investment decisions for, the client, it is very important that clients provide accurate and complete responses to their advisor's questions about their financial condition, needs and objectives, and any reasonable restrictions they wish to apply to the securities or types of securities to be bought, sold, or held in their managed account. It is also important that clients inform their Commonwealth advisor of any changes in their financial condition, investment objectives, personal



circumstances, and reasonable investment restrictions pertaining to the management of the account, if any, that may affect the client's overall investment goals and strategies.

In general, the client's Commonwealth advisor is responsible for delivering investment advisory services to clients, and clients generally deal with matters relating to their accounts by contacting their Commonwealth advisor directly.

#### **D. "Wrap" Program**

Most TPAM programs, as well as Commonwealth's PPS Custom (Platform), PPS Custom (TIAA), PPS Direct, PPS Select, PPS Custom Variable Contract Subaccount Allocation, SEI Asset Management, and Private Wealth Management programs, are considered "wrap fee" programs in which the client pays a specified fee for portfolio management services and trade execution. Wrap fee programs differ from other programs in that the asset management fee structure for wrap programs is intended to be largely all-inclusive, whereas non-wrap fee programs assess trade execution costs that are typically in addition to the asset management fee. For example, Commonwealth's PPS Custom Program (Transactions) is not considered a wrap fee program because clients generally pay trade-by-trade transaction costs that are in addition to the asset management fee. Commonwealth's PPS Custom Variable Contract Subaccount Allocation Program is, however, considered a wrap fee program because clients are subject to an annual platform fee that covers transaction costs.

Commonwealth's PPS Custom (Platform), PPS Custom (TIAA), and PPS Custom Variable Contract Subaccount Allocation wrap fee programs are managed by your Commonwealth financial advisor, and Commonwealth's PPS Select wrap fee program is managed by Commonwealth's own Investment Management and Research team. The PPS Direct, SEI Asset Management, Private Wealth Management, and other TPAM model portfolio wrap fee programs or model strategies available through Commonwealth are managed by third-party portfolio managers or are provided to Commonwealth by third-party investment advisers that are not affiliated with Commonwealth.

The PPS Direct, SEI Asset Management, Private Wealth Management, and other TPAM model portfolio wrap fee programs or model strategies available through Commonwealth are managed in accordance with the investment methodology and philosophy used by the respective third-party portfolio manager, investment adviser, or strategist. The PPS Select Program is managed in accordance with the investment methodology and philosophy of Commonwealth's own Investment Management and Research team. The PPS Custom (Platform), PPS Custom (TIAA), and PPS Custom Variable Contract Subaccount Allocation programs are managed by your Commonwealth advisor in accordance with his or her own investment methodology and philosophy.

For the investment advisory services provided to you by Commonwealth and your advisor, Commonwealth and your advisor receive a portion of the investment advisory fee you pay when you participate in any managed account program through Commonwealth. Commonwealth receives a higher portion of the advisory fee you pay when you participate in Commonwealth's PPS Select programs to compensate for Commonwealth's investment management and research services provided by the Commonwealth Investment Management and Research team.

## **E. Assets Under Management**

As of December 31, 2016, Commonwealth had \$61,475,167,186.12 in assets under management (“AUM”), of which \$60,711,636,327.87 was managed on a discretionary basis and \$763,530,858.25 was managed on a nondiscretionary basis.

## **F. Program Choice Conflicts of Interest**

Clients should be aware that the compensation to Commonwealth and your advisor will differ according to the specific advisory program chosen. This compensation to Commonwealth and your advisor may be more than the amounts we would otherwise receive if you participated in another program or paid for investment advice, brokerage, and/or other relevant services separately. As a result of the differences in fee schedules and other sources of compensation that exist among the various advisory programs and services offered by Commonwealth and your advisor, we have a financial incentive to recommend a particular program or service over other programs or services available through Commonwealth.

Commonwealth charges financial advisors a PPS administrative fee at the same time clients are charged PPS Program management fees. The PPS administrative fee is paid by the financial advisor rather than the advisor’s clients and is calculated as a percentage of PPS account assets. The PPS administrative fee covers Commonwealth’s maintenance costs associated with PPS performance reporting, account reconciliation, auditing, and quarterly statements. In the same manner as many Commonwealth advisors offer asset management fee discounts to their larger clients, Commonwealth offers its advisors administrative fee discounts based on their total PPS Program AUM. As advisors grow their fee-based business within Commonwealth’s suite of PPS programs, Commonwealth’s economies of scale are shared with its advisors by reducing the percentage amount of PPS administrative fees that would otherwise be charged to the advisors. Advisors are offered discounts on the PPS administrative fee when they reach specified asset levels, starting at \$10 million. As the amount of advisors’ client assets in Commonwealth’s PPS programs grows above certain levels, advisors receive greater administrative fee discounts than they would otherwise pay.

Additionally, advisors with PPS AUM of at least \$25 million qualify for an increased payout percentage on their PPS management fees, starting at 90% and rising to a maximum of 98% as their PPS AUM grows.

These discounts in PPS administrative fees and higher payouts for reaching various PPS AUM levels present a conflict of interest because they provide a financial incentive for your Commonwealth advisor to recommend one of Commonwealth’s PPS programs over other available managed or wrap account programs outside of PPS that do not offer such discounts or higher payouts to your advisor.

## **Item 5 Fees and Compensation**

### **A. How You’re Charged and How We’re Compensated**

Clients who elect to receive asset management services through one or more of Commonwealth’s PPS programs or TPAM programs will generally pay Commonwealth and

their advisor for those services with an annual asset management fee based on a percentage of AUM. The maximum account management fee that can be charged in any Commonwealth managed account program is 3% annually and is negotiable. Certain managed account programs have lower maximum annual fee amounts, and fee schedules will vary among programs. In most cases, the annual account management fee is payable quarterly in advance and is computed as one-quarter of the annual fee based on the AUM on the last business day of the previous calendar quarter. In some cases, the annual account management fee may be payable monthly in advance computed as one-twelfth of the annual fee based on the AUM on the last business day of the previous month-end. In limited circumstances, estimated quarter-end values of alternative investments provided by the product issuer may be used when calculating billable AUM. Certain managed account programs charge fees in arrears and will have differing methods of computation. Please refer to the respective program description in this Brochure, to the respective client agreement, and to the respective TPAM Program Brochure (if applicable) for specific information about the maximum fee allowed, the varying fee schedules of each program, and the methods of fee billing for the program(s) you select.

All Commonwealth advisory program and service fees are negotiable between the advisor and client. In the event a client terminates an advisory agreement with Commonwealth and the advisor, any unearned fees resulting from advanced payments will be refunded to the client. Likewise, in the event Commonwealth bills clients in arrears for services that have already been rendered, Commonwealth will prorate such fees up to the termination date of the advisory agreement.

Commonwealth generally offers two types of fee schedules for use in Commonwealth PPS Program accounts, which are generally referred to as “blended” schedules and “breakpoint” schedules.

### **Blended Schedule**

A blended schedule looks at the account value and compares it to a set fee schedule. Based upon the value of the account at the end of the billing period, the fee schedule identifies specific portions of the account value to be charged at different fee rates. The total value of the account is compared against this schedule and, based on the account size, the different fee rates are blended to determine the total account fee for that period.

For example, assume the following blended fee schedule:

<b>Account Value</b>	<b>Fee</b>
First \$0–\$50,000	3%
Next \$50,000.01–\$99,000.00	2.50%
Next \$99,000.01–\$250,000.00	2%
Next \$250,000.01 and above	1.50%

Also, assume that the account value at the end of the billing period is \$200,000. In this hypothetical example, and assuming a quarterly billing cycle is applied, the quarterly account fee for the quarterly billing period would be assessed as follows: First \$50,000 of the account value will be billed at a rate of 3% ( $\$50,000 \times 3\% = \$1,500$ ;  $\$1,500 \div 4 = \$375$ ); the next \$49,000 will be billed at a rate of 2.50% ( $\$49,000 \times 2.50\% = \$1,225$ ;  $\$1,225 \div 4 = \$306.25$ ); the next \$101,000 will be billed at a rate of 2% ( $\$101,000 \times 2\% = \$2,020$ ;  $\$2,020 \div 4 = \$505$ ).

Each of the different fee rate amounts is added together to determine the total quarterly account fee for that period, as follows:

$$\$375 + \$306.25 + \$505 = \$1,186.25 \text{ quarterly account fee}$$

### **Breakpoint Schedule**

A breakpoint schedule looks at the account value and compares it to a set fee schedule. Based upon the value of the account at the end of the billing period, the billable fee rate will decline as the value of the account reaches the next fee rate, or “breakpoint.” The total value of the account is compared against the fee rate for the respective value range that corresponds with the account value to determine the total account fee for that period.

For example, assume the following breakpoint fee schedule:

<b>Account Value</b>	<b>Fee</b>
\$0–\$50,000	3%
\$50,000.01–\$99,000.00	2.50%
\$99,000.01–\$250,000.00	2%
\$250,000.01 and above	1.50%

Also, assume that the account value at the end of the billing period is \$200,000. In this hypothetical example, and assuming a quarterly billing cycle is applied, the quarterly account fee for the quarterly billing period would be assessed as follows: The \$200,000 account value falls within the fee schedule value range of \$99,000.01–\$250,000.00, which corresponds with a fee rate of 2%. Therefore,  $\$200,000 \times 2\% = \$4,000$ ;  $\$4,000 \div 4 = \$1,000$  quarterly account fee.

Below is the standard breakpoint fee schedule for a PPS Custom Program (Transactions) account:

<b>Account Value</b>	<b>Maximum Annual Management Fee</b>
\$25,000–\$99,999	3%
\$100,000–\$249,999	2.75%
\$250,000–\$499,999	2.50%
\$500,000–\$749,999	2.25%
\$750,000–\$999,999	2%
\$1,000,000–\$1,999,999	1.75%
\$2,000,000+	1.50%

The initial quarterly fee will be prorated based on the number of billing days in the initial quarter. The initial account balance and number of billing days in the initial quarter is calculated from the date on which the account reaches 90% of the approximate value for the account or 30 days after the contract acceptance date by Commonwealth, whichever occurs first. Fees are based on account value and account type and are negotiable, but may not exceed 3% of AUM. Other methods of fee calculation may be possible, depending on what, and how, services are provided, client circumstances, and the account size. These methods include, but are not limited to, hourly, flat, breakpoint, and blended fee billing. Additional deposits of funds and/or securities

during a particular calendar quarter will be subject to billing on a pro rata basis. Clients who withdraw funds from a managed account during a billing period are not generally entitled to a pro rata refund unless they are terminating their managed account program client agreement.

All fee amounts and arrangements are negotiable and Commonwealth may waive a particular fee, whether on an ongoing or a one-time basis, in its sole discretion. Commonwealth may also allow for the aggregation of assets among a client's "related" managed accounts for purposes of determining the value of AUM and the applicable advisory fee to be paid by a client. Commonwealth reserves the right to determine whether client accounts are "related" for purposes of aggregating a client's accounts together for a reduction in the percentage fee amount.

In addition to the annual asset management fee, clients participating in Commonwealth's PPS Direct, PPS Select, or PPS Custom (Platform) wrap fee programs will pay Commonwealth an annual platform or program fee. In most cases, the annual platform or program fee is payable quarterly in advance and is computed as one-quarter of the annual fee based on the total value of your account on the last business day of the previous quarter.

As an example, below is the standard platform fee schedule for a PPS Custom Program (Platform) account:

<b>Household Assets</b>	<b>Maximum Annual Platform Fee*</b>
First \$100,000	0.15%
Next \$150,000	0.10%
Next \$250,000	0.08%
Next \$500,000	0.06%
Next \$500,000	0.05%
Next \$1,000,000	0.04%
Next \$2,500,000	0.03%
Above \$5,000,000	0.01%

\*The annual platform fee is household-based and calculated on a blended basis. The minimum annual per-account platform fee is \$150 (\$37.50 quarterly), which may exceed the maximum annual platform fee percentage described above based on account size. Households are maintained by the advisor.

Commonwealth's Wealth Management Consulting and Retirement Plan Consulting programs provide the following fee payment options:

### **Wealth Management Consulting**

The Commonwealth Wealth Management Consulting Program provides clients with the option of paying an annual fee for ongoing services, a flat fee, or an hourly rate not to exceed \$500. The fee amount a client will pay is negotiable between the client and his or her advisor and may either be paid at the time of service, in advance of service, or in arrears. Annual fees may be paid in monthly, quarterly, semiannual, or annual installments as agreed to between the client and the advisor.

## **Retirement Plan Consulting**

The Commonwealth Retirement Plan Consulting Program provides clients with the option of paying an annual fee for ongoing services based on a percentage of assets under advisement, a flat fee, or an hourly rate not to exceed \$500. The fee amount a client will pay is negotiable between the client and the advisor. Fees may be paid directly from qualified plan assets or may be direct billed, as agreed to between the client and the advisor.

## **B. Fee Collection Process**

Commonwealth, through the account custodian, will typically debit the account management fee from the account automatically. The account management fee will be payable first from free credit balances, money market funds, or cash equivalents, if any, and second from the liquidation of a portion of the client's securities holdings, pursuant to the discretionary authority granted by the client to Commonwealth and the advisor.

Rather than automatic fee debiting from a client's account, clients may also have the ability to be direct billed by writing a check to Commonwealth for the fee amount, or instructing Commonwealth to charge the fee to one of the client's other Commonwealth accounts.

Managed account clients will generally pay fees quarterly, in advance or in arrears, based on the specific program selected. In some cases, the annual account management fee may be payable monthly in advance based on the AUM on the last business day of the previous month-end. Consulting clients will pay fees at time of service, in advance of service, or in arrears, as well as in monthly, quarterly, semiannual, or annual installments, as agreed to between the client and the advisor.

## **C. Other Fees and/or Costs**

### **General**

With the exception of Commonwealth's wrap fee programs, when Commonwealth effects securities transactions for a client's account, Commonwealth typically passes on the securities clearance and settlement fees charged by its clearing broker/dealer, with an added charge to compensate Commonwealth for the cost of its resources utilized in processing the transaction(s). Commonwealth's maximum transaction charges are as follows:

<b>Equities</b>	<b>Maximum Charges</b>
OTC	\$25
Listed	\$25 up to 1,000 shares + \$0.01 per share thereafter
<b>Fixed Income</b>	
Treasuries, CDs, and Federal Agencies	\$30
Corporates and Municipals	\$30
UITs	\$20
CMOs	\$30
<b>Options</b>	\$20 + \$1.25 per contract

**Mutual Funds\***

Buy	\$20
Sell	\$20
Exchange	\$20

\*Maximum transaction charges of \$35 apply for buys and sells in the following fund families: CGM, Dimensional Fund Advisors, Dodge & Cox, Sequoia, and Vanguard.

In addition to the transaction charges described above, Commonwealth will charge a \$4 confirmation fee for all transactions except mutual fund exchanges, no-transaction-fee (“NTF”) funds, and periodic investment/systematic withdrawal transactions. Transaction charges quoted are for transactions processed by Commonwealth’s Trade Desk. Reduced transaction charges may apply for transactions processed online by Commonwealth’s advisors.

In addition to the charges noted above, clients may also incur certain charges imposed by Commonwealth, or by third parties other than Commonwealth or the advisor, in connection with certain investments or your account. Commonwealth and your advisor may receive a portion of these fees and charges. These include, but are not limited to:

- Mutual fund or money market 12b-1 fees, subtransfer agent fees, and distributor fees;
- Mutual fund and money market management fees and administrative expenses;
- Mutual fund transaction fees;
- Certain deferred sales charges on previously purchased mutual funds transferred into the account;
- Other transaction charges and service fees;
- IRA and qualified retirement plan fees; and
- Other charges that may be required by law.

Information describing the brokerage fees and charges that may be applicable to a Commonwealth brokerage or managed account is provided on Commonwealth’s Schedule of Miscellaneous Account and Service Fees, which is available at [www.commonwealth.com/clients/account-fees.aspx](http://www.commonwealth.com/clients/account-fees.aspx).

Commonwealth financial advisors may select share classes of mutual funds that pay Commonwealth and the advisor 12b-1 fees when lower-cost institutional shares of the same mutual fund may be available.

Certain funds available for investment through Commonwealth assess transaction charges to you, Commonwealth, or your Commonwealth advisor. Although NTF funds do not assess transaction charges, NTF funds often contain higher internal expenses than mutual funds that do not participate in an NTF program. These higher internal fund expenses are assessed to investors who purchase or hold NTF funds. Depending upon the frequency of trading and hold periods, NTF funds may cost you more, or may cost Commonwealth or your Commonwealth advisor less, than mutual funds that assess transaction charges but have lower internal expenses.

These fees and transaction charges present a conflict of interest because Commonwealth or your Commonwealth advisor has a greater incentive to make available, recommend, or make investment decisions regarding investments that provide additional compensation to Commonwealth and your advisor over those investments that do not. In programs that assess transaction charges, a conflict of interest exists because Commonwealth or your Commonwealth advisor has an incentive to recommend or select NTF funds that do not assess transaction charges, but cost you more in internal expenses, than funds that do assess transaction charges, but cost you less in internal expenses. Further information regarding fees and charges assessed by a mutual fund is available in the appropriate mutual fund prospectus.

#### **D. Prorated Rebate of Fees Paid in Advance**

In the event a client terminates an advisory agreement with Commonwealth and his or her advisor, any unearned fees resulting from advanced payments will be refunded to the client. Likewise, in the event Commonwealth bills clients in arrears for services that have already been rendered, Commonwealth will prorate such fees up to the termination date of the advisory agreement.

#### **E. Other Forms of Compensation**

As mentioned above, an ongoing asset management fee, billed quarterly in advance, is the most common method of payment for the client and compensation to Commonwealth and the advisor, and it is the most common method in use by Commonwealth's most popular advisory offerings, such as PPS Custom, PPS Select, PPS Direct, and unaffiliated TPAM programs. In some cases, the annual account fee may be payable monthly in advance, and certain managed account programs charge fees in arrears or will have differing methods of fee calculation. Please refer to the respective program description in this Brochure, to the respective client agreement, and to the respective TPAM Program Brochure (if applicable) for specific information about the maximum fee allowed, the varying fee schedules of each program, and the methods of fee billing for the program(s) you select.

In addition to the annual asset management fee, clients participating in Commonwealth's PPS Direct, PPS Select, or PPS Custom (Platform) wrap fee programs will pay Commonwealth an annual platform or program fee. In most cases, the annual platform or program fee is payable quarterly in advance and is computed as one-quarter of the annual fee based on the total value of your account on the last business day of the previous quarter.

When an advisor provides consulting services for a client, the client typically pays for services rendered on a one-time basis, but compensation may be ongoing. For Retirement Plan Consulting, the fee may be an hourly, flat, fixed, or asset-based fee for providing one-time, or ongoing, advisory services to a plan. For Wealth Management Consulting, the fee typically may be an hourly, flat, or fixed fee for providing consulting and/or financial planning services. Retirement Plan Consulting and Wealth Management Consulting are typically paid either at the time of service, in advance of service, or in arrears. The client generally makes a check payable to Commonwealth Financial Network to pay for consulting services. This is the only instance in which the client should make a check payable to Commonwealth. Checks should never be made payable to the advisor, the advisor's business name, or any other entity under the control of the advisor.



Clients should be aware that, when assets are invested in shares of mutual funds or variable insurance products, clients will pay investment advisory fees to Commonwealth and to the advisor for their advisory services in connection with the investments. In addition to the payments received by Commonwealth and the advisor, clients will also typically pay management fees and other fees charged by the investment company, alternative investment, or insurance product sponsor themselves. Clients may be able to invest directly in the investment company, alternative investment, or insurance product without incurring the investment advisory fees charged by Commonwealth. If a client's assets are invested in a variable annuity, the client will pay both the direct management fee to Commonwealth for the advisory services provided by the client's Commonwealth advisor in connection with that investment and, indirectly, the management and other fees charged by the underlying annuity subaccounts, as well as the charges assessed by the insurance company. Of course, clients should also be aware of the tax implications of investing, as well as of the existence of deferred sales charges or redemption fees charged by some product sponsors.

Commonwealth and your advisor may receive service fees and other compensation from investment product sponsors and distributors when they make recommendations or investment decisions for you. These fees and compensation may include, but may not be limited to, mutual fund and money market 12b-1 and subtransfer agent fees, mutual fund and money market management fees and administrative expenses, mutual fund transaction fees, certain deferred sales charges on previously purchased mutual funds transferred into an account, variable annuity expenses, due diligence fees, marketing reimbursements or reallowances, or other transaction or service fees. Commonwealth and your advisor may receive a portion of these fees. This additional compensation presents a conflict of interest because Commonwealth or your Commonwealth advisor has a greater incentive to make available, recommend, or make investment decisions regarding investments for your account that provide such additional compensation to your advisor or Commonwealth. Further information regarding fees and charges assessed to you by investment products you purchase is available in the appropriate product prospectus, statement of additional information, and/or offering document.

**For California Residents:** Subsection (j) of Rule 260.238 of the California Code of Regulations requires that all investment advisers disclose to their advisory clients that lower fees for comparable services may be available from other sources.

**For District of Columbia Residents:** Section 1811.1 Subsection (j) of the DC Rules requires Commonwealth to disclose that lower fees for comparable services may be available from other sources. Subsection (k) requires Commonwealth to indicate that all material conflicts of interest that relate to the advisor or to any of its employees, and that would cause Commonwealth not to render unbiased and objective advice, have been disclosed to the client in writing via the disclosure provided in this Form ADV Part 2.

**For Massachusetts Residents:** Massachusetts General Law Section 203A requires disclosure that information about the disciplinary history and the registration of Commonwealth and its associated persons may be obtained by contacting the Public Reference Branch of the SEC at 202.942.8090, or by contacting the Massachusetts Securities Division at One Ashburton Place, 17th Floor, Boston, MA 02108 or at 617.727.3548.

**Special Disclosures for ERISA Plans:** In this Brochure, Commonwealth has disclosed conflicts of interest, such as receiving additional compensation from third parties (e.g., 12b-1 fees, subtransfer agent fees, and revenue sharing) for providing marketing, recordkeeping, or other services in connection with certain investments. Commonwealth, however, has adopted policies and procedures that are designed to ensure compliance with the prohibited transaction rules under the Employee Retirement Income Security Act of 1974 (“ERISA”), as amended. For example, Commonwealth has taken several steps to address the conflict of interest associated with Commonwealth’s or Commonwealth’s advisors’ receipt of compensation for services provided to ERISA plans.

First, an advisor negotiates the compensation with ERISA plan sponsors or participants (“ERISA clients”) and the compensation is either an annual fee for ongoing services based on a percentage of assets under advisement, a flat fee, or an hourly rate. Second, to the extent that an advisor receives additional compensation from a third party, the advisor must report it to Commonwealth to enable the additional compensation to be offset against the fees that the ERISA clients would otherwise pay for the advisor’s services. Third, Commonwealth has established a policy not to influence any advisor’s advice or management of assets at any time or for any reason based on any compensation that Commonwealth or the advisor might receive from third parties. In no event will Commonwealth allow advisors to provide advice or manage assets for ERISA clients if they have conflicts of interest that Commonwealth believes are prohibited by ERISA.

As a covered service provider to ERISA plans, Commonwealth will comply with the U.S. Department of Labor regulations on fee disclosures, effective July 16, 2011 (or such other date as provided by the Department). Thus, Commonwealth and its advisors will disclose (i) direct compensation received from ERISA clients; (ii) indirect compensation (e.g., 12b-1 fees) received from third parties; and (iii) transaction-based compensation (e.g., commissions) or other similar compensation shared with related parties servicing the ERISA plan. These fee disclosures will be made reasonably in advance of entering into, renewing, or extending the advisory service agreement with the ERISA client.

## **Item 6            Performance-Based Fees and Side-By-Side Management**

Commonwealth does not charge 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**

Commonwealth generally provides advisory services to the following types of clients:

- Individuals (other than high-net-worth individuals)
- High-net-worth individuals
- Corporations or other businesses
- Pension and profit-sharing plans (other than plan participants)
- State or municipal government entities
- Charitable organizations

The majority of Commonwealth clients are retail clients that fall under the “Individuals (other than high-net-worth individuals)” category. This category includes, but is not limited to, individual, joint, trust, IRA, 401(k) participant, and custodial accounts.

Commonwealth’s various managed account programs generally require clients to meet certain program account minimums. In some cases, account balances may be combined at the household level to satisfy the account minimum. The following is a description of the account minimums in the various managed accounts available through Commonwealth:

- The Commonwealth PPS Custom Program generally involves a \$25,000 account minimum.
- The account minimums for Commonwealth’s PPS Select programs generally start as low as \$10,000 for Active model portfolios and \$1,000 for Passive model portfolios.
- The PPS Select DFA Program minimum is generally \$50,000. The PPS Select Fixed Income SMA Program minimum is generally \$500,000.
- The account minimums for Commonwealth’s PPS Direct programs vary and are typically determined by the third-party portfolio managers. In general, the PPS Direct Mutual Fund/ETF account minimums are \$25,000. The PPS Direct SMA account minimums typically range from \$100,000 to \$250,000. The PPS Direct UMA Program minimum is generally \$400,000.
- Commonwealth also offers advisors’ clients access to certain TPAM programs. Account minimums for TPAM Program accounts vary but generally range between \$25,000 and \$50,000. Commonwealth and the respective Program Sponsors may waive the account minimum requirements for their respective programs in their sole discretion.

## **Item 8           Methods of Analysis, Investment Strategies, and Risk of Loss**

### **A. Methods of Analysis and Investment Strategies**

Investing in securities involves risk of loss that investors should be sure they understand and should be prepared to bear.

Commonwealth primarily serves retail investors. Each advisor associated with Commonwealth has the independence to take the approach he or she believes is most appropriate when analyzing investment products and strategies for clients. There are several sources of information that

Commonwealth and the advisor may use as part of the investment analysis process. These sources include, but are not limited to:

- Financial publications
- Research materials prepared by others
- Corporate rating services
- SEC filings (annual reports, prospectus, 10-K, etc.)
- Company press releases

As a firm, Commonwealth does not favor any specific method of analysis over another and, therefore, would not be considered to have one approach deemed to be a “significant strategy.” There are, however, a few common approaches that may be used by Commonwealth or your advisor, individually or collectively, in the course of providing advice to clients. Please note that there is no investment strategy that will guarantee a profit or prevent loss. Following are some common strategies employed by advisors in the management of client accounts:

- **Dollar Cost Averaging (“DCA”):** The technique of buying a fixed dollar amount of a particular investment on a regular schedule, regardless of the share price. More shares are purchased when prices are low, and fewer shares are bought when prices are high. DCA is believed to lessen the risk of investing a large amount in a single investment at higher price. DCA strategies are not effective and do not prevent against loss in declining markets.
- **Asset Allocation:** An investment strategy that aims to balance risk and reward by allocating assets among a variety of asset classes. At a high level, there are three main asset classes—equities (stocks), fixed income (bonds), and cash/cash equivalents—each of which has different risk and reward profiles/behaviors. Asset classes are often further divided into domestic and foreign investments, and equities are often divided into small, intermediate, and large capitalization. The general theory behind asset allocation is that each asset class will perform differently from the others in different market conditions. By diversifying a portfolio of investments among a wide range of asset classes, advisors seek to reduce the overall volatility and risk of a portfolio through avoiding overexposure to any one asset class during various market cycles. Asset allocation does not guarantee a profit or protect against loss.
- **Technical Analysis (aka “Charting”):** A method of evaluating securities by analyzing statistics generated by market activity, such as past prices and volume. Technical analysts do not attempt to measure a security’s intrinsic value. Instead, they use charts and other tools to identify patterns that can suggest future activity. When looking at individual equities, a person using technical analysis generally believes that performance of the stock, rather than performance of the company itself, has more to do with the company’s future stock price. It is important to understand that past performance does not guarantee future results.
- **Fundamental Analysis:** A method of evaluating a security that entails attempting to measure its intrinsic value by examining related economic, financial, and other qualitative and quantitative factors. Fundamental analysts attempt to study everything that can affect the security’s value, including macroeconomic factors (e.g., the overall economy and industry conditions) and company-specific factors (e.g., financial condition and management). The end goal of performing fundamental analysis is to produce a value that

an investor can compare with the security's current price, with the aim of figuring out what sort of position to take with that security (underpriced = buy, overpriced = sell or short). This method of security analysis is considered to be the opposite of technical analysis.

- **Quantitative Analysis:** An analysis technique that seeks to understand behavior by using complex mathematical and statistical modeling, measurement, and research. By assigning a numerical value to variables, quantitative analysts try to replicate reality mathematically. Some believe that it can also be used to predict real-world events, such as changes in a share price.
- **Qualitative Analysis:** Securities analysis that uses subjective judgment based on nonquantifiable information, such as management expertise, industry cycles, strength of research and development, and labor relations. This type of analysis technique is different from quantitative analysis, which focuses on numbers. The two techniques, however, are often used together.

## B. Risks

As mentioned above, regardless of what strategy or analysis is undertaken, there is risk of loss; in some cases, total loss. Some risks may be avoided or mitigated, while others are completely unavoidable. Some of the common risks you should consider prior to investing include, but are not limited to:

- **Market risks:** The prices of, and the income generated by, the common stocks, bonds, and other securities you own may decline in response to certain events taking place around the world, including those directly involving the issuers; conditions affecting the general economy; overall market changes; local, regional, or global political, social, or economic instability; governmental or governmental agency responses to economic conditions; and currency, interest rate, and commodity price fluctuations.
- **Interest rate risks:** The prices of, and the income generated by, most debt and equity securities may be affected by changing interest rates and by changes in the effective maturities and credit ratings of these securities. For example, the prices of debt securities generally will decline when interest rates rise and will increase when interest rates fall. In addition, falling interest rates may cause an issuer to redeem, "call," or refinance a security before its stated maturity date, which may result in having to reinvest the proceeds in lower-yielding securities.
- **Credit risks:** Debt securities are also subject to credit risk, which is the possibility that the credit strength of an issuer will weaken and/or an issuer of a debt security will fail to make timely payments of principal or interest and the security will go into default.
- **Risks of investing outside the U.S.:** Investments in securities issued by entities based outside the United States may be subject to the risks described above to a greater extent.

Investments may also be affected by currency controls; different accounting, auditing, financial reporting, disclosure, and regulatory and legal standards and practices; expropriation (occurs when governments take away a private business from its owners); changes in tax policy; greater market volatility; different securities market structures; higher transaction costs; and various administrative difficulties, such as delays in clearing and settling portfolio transactions or in receiving payment of dividends. These risks may be heightened in connection with investments

in developing countries. Investments in securities issued by entities domiciled in the United States may also be subject to many of these risks.

Your investments are not bank deposits and are not insured or guaranteed by the FDIC or any other governmental agency, entity, or person, unless otherwise noted and explicitly disclosed as such, and as such may lose value.

## **Item 9           Disciplinary Information**

Following is a list of those legal or disciplinary events that may be material to your evaluation of Commonwealth or the integrity of Commonwealth's management.

During the period from December 7, 2009, to January 28, 2012, Commonwealth used a system to comply with its regulatory obligations pertaining to archiving, preserving, and supervising the business-related e-mails of its associated persons. During this period, Commonwealth's e-mail surveillance system failed to subject about 12.6 million of our associated persons' outgoing e-mails to our daily e-mail surveillance protocol and failed to surveil approximately 474,380 e-mails that were sent or received by our registered representatives ("RRs"). These failures violated NASD Conduct Rules 3010(a) and 3010(d)(2) and FINRA Rule 2010. Despite the failure of its surveillance tool to review outgoing e-mails, Commonwealth did surveil incoming e-mails that were received by its RRs, including e-mails sent in reply to its RRs' outgoing e-mails; outgoing e-mails that were sent to or carbon-copied to Commonwealth employees or other Commonwealth RRs; and certain outgoing e-mails in connection with the firm's branch audits. Commonwealth self-reported these issues to FINRA in March 2012; undertook an internal review of its supervisory policies, procedures, and systems relating to these issues; and subjected e-mails that had not been reviewed to review. Without admitting or denying the findings, Commonwealth accepted and consented to a censure and a \$250,000 fine.

In November 2008, an intruder obtained the login credentials of one Commonwealth RR through the use of a computer virus and was able to access a list of the RR's Commonwealth customer accounts. The intruder then entered unauthorized purchase orders for the stock of one publicly traded company in eight accounts. The activity was detected by Commonwealth's clearing broker/dealer within 10 minutes, and the intruder was blocked from further trading. Commonwealth immediately cancelled the trades, absorbed the monetary losses, contacted the SEC, and put corrective safeguards in place, including mandating the use of current antivirus software by all its RRs. Commonwealth, without admitting or denying the allegations, consented to an SEC administrative order finding that it failed to comply with Rule 30(a) of Regulation S-P. On September 29, 2009, the SEC accepted Commonwealth's offer of settlement and entered an administrative order. Without admitting or denying the findings, Commonwealth consented to a cease and desist, a censure, and a civil money penalty of \$100,000 for violating Rule 30(a) of Regulation S-P.

FINRA alleged, during the time period from April 1 to June 30, 2008, that Commonwealth Equity Services, LLP ("Commonwealth"), failed to report to the trade reporting and compliance engine ("TRACE") 234 transactions in TRACE-eligible securities within 15 minutes of time of execution and that the firm's supervisory system did not provide for supervision reasonably

designed to achieve compliance with applicable securities laws, regulations, and FINRA rules concerning TRACE rules. On November 24, 2009, FINRA's NAC review committee accepted Commonwealth's letter of acceptance, waiver, and consent. Without admitting or denying the findings, Commonwealth consented to a censure, a \$15,000 fine, and an undertaking to revise the firm's written supervisory procedures regarding TRACE rules.

## **Item 10 Other Financial Industry Activities and Affiliations**

### **A. Commonwealth, the Broker/Dealer**

As mentioned in the "About Us" section on page 5, Commonwealth is a dual registrant, which means it is registered as an investment adviser and a broker/dealer. Depending upon the securities registrations held by each individual advisor, Commonwealth's advisors offer a variety of securities and investments to their clients, including, but not limited to, mutual funds, Section 529 college savings plans, variable annuities, individual stocks and bonds, options, LPs, UITs, REITs, alternative investments, and a variety of other securities and insurance products approved for sale by Commonwealth. Commonwealth and its principal executive officers devote approximately 50% of their time to securities brokerage activities and 50% to investment advisory activities. Commonwealth has fully disclosed clearing arrangements with NFS and Pershing LLC ("Pershing"), a Bank of New York Mellon company.

### **B. Commonwealth, an Introducing Broker/Dealer**

Commonwealth is a member of the National Futures Association, which is the self-regulatory organization for the U.S. futures industry. Commonwealth offers clients access to certain managed futures products.

### **C. Commonwealth-Related Companies and Material Conflicts of Interest**

In addition to its registration as an investment adviser, Commonwealth is registered as a broker/dealer under the same name of Commonwealth Financial Network. Commonwealth has a related company that is licensed as an insurance agency under the name of CES Insurance Agency. Almost all of Commonwealth's advisors are registered with Commonwealth's broker/dealer as RRs, and many are licensed insurance agents of CES Insurance Agency.

As part of the investment advisory programs offered to clients, Commonwealth provides brokerage execution services to Commonwealth advisory clients participating in any of Commonwealth's PPS managed account programs. Commonwealth and its advisors make securities recommendations to clients (or, in the case of discretionary services, make investment decisions for clients) regarding Commonwealth's investment advisory programs. Where permitted by law, Commonwealth and/or your advisor may receive transaction-based commissions, mutual fund 12b-1 fees, distributor fees, service fees, due diligence fees, marketing reimbursements, revenue sharing, or other payments relating to your investment in or otherwise supporting Commonwealth's or your advisor's activities regarding the securities and insurance products recommended, purchased, or held within your Commonwealth advisory program account. To the extent Commonwealth is the investment adviser, sponsor, or other service provider to your investment advisory program, Commonwealth receives compensation for its services. Clients should be aware that Commonwealth's or your advisor's receipt of commissions, fees, payments, and other compensation presents a conflict of interest because

Commonwealth or your advisor has an incentive to make available or to recommend those products or programs, or make investment decisions regarding investments, that provide such compensation to Commonwealth or your advisor.

#### **D. Commonwealth's Relationships with Other Investment Advisers**

Commonwealth and your advisor may serve as solicitors for or recommend clients to third-party investment advisers. Commonwealth and its advisors are compensated for referring your advisory business to these third-party investment advisers. This compensation generally takes the form of the third-party investment adviser sharing with Commonwealth and your advisor a portion of the advisory fee the third-party investment adviser charges you for providing investment management services. Commonwealth and your advisor, therefore, have a conflict of interest to refer clients to those third-party investment advisers that pay referral fees to Commonwealth or to your advisor rather than those that don't. Additionally, Commonwealth and your advisor have a conflict of interest to refer clients to those third-party investment advisers that pay higher referral fees over those that pay lower referral fees. Commonwealth performs reasonable due diligence on these third-party investment advisers on an initial and ongoing basis. Clients who are referred to these third-party investment advisers will receive a separate written disclosure document that describes, among other things, the compensation that will be paid to Commonwealth and the advisor by the third-party investment adviser, as well as any amount to be charged to the client that is in addition to the advisory fee that would otherwise be paid by the client to the third-party investment adviser in exchange for the referral.

#### **Item 11            Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

Pursuant to Rule 204A-1 under the Investment Advisers Act of 1940, as amended, Commonwealth has adopted a Code of Ethics that governs a number of conflicts of interest we have when providing our advisory services to you. Our Code of Ethics is designed to ensure that we meet our fiduciary obligations to you and to foster a culture of compliance throughout our firm.

Our Code of Ethics is comprehensive and is designed to help us detect and prevent violations of securities laws and to help ensure that we keep your interests first at all times. We distribute our Code of Ethics to each supervised person at Commonwealth at the time of his or her initial affiliation with our firm; we make sure it remains available to each supervised person for as long as he or she remains associated with our firm; and we ensure that updates to our Code of Ethics are communicated to each supervised person as changes are made.

Commonwealth's Code of Ethics sets forth certain standards of conduct and addresses conflicts of interest among Commonwealth and Commonwealth's employees, agents, advisors, and advisory clients.



Clients and prospective clients of Commonwealth may request a free copy of Commonwealth's Code of Ethics by mailing a written request to:

**Commonwealth Financial Network**

Attn: Investment Adviser Compliance Unit  
29 Sawyer Road  
Waltham, MA 02453

Commonwealth and its advisors may purchase or sell for their own accounts securities or other investment products that are also recommended to clients, which may create a conflict of interest. Commonwealth policy prohibits "trading ahead" of clients' transactions. When advisors are purchasing or selling securities for their own accounts, priority will be given to client transactions. Commonwealth has implemented surveillance and exception reports that are designed to identify and correct situations in which firm or advisor transactions are placed ahead of client transactions.

**Item 12 Brokerage Practices**

**A. General**

Commonwealth renders investment advice to the majority of its PPS Program advisory clients on a discretionary basis, pursuant to written authorization granted by the client. Commonwealth maintains a primary clearing relationship for the execution of client transactions with NFS as the account custodian. Commonwealth maintains a secondary clearing relationship for the execution of client transactions with Pershing as the account custodian. Substantially all of Commonwealth's PPS advisory clients must select Commonwealth as the broker/dealer of record and NFS as the clearing firm for their PPS managed accounts. In all cases, the name and address of the account custodian will be identified in the respective PPS managed account client agreement.

Commonwealth has negotiated competitive pricing and services with both NFS and Pershing for the benefit of our clients. NFS and Pershing offer their broker/dealer clients substantial financial strength and stability, economies of scale, and reliable, state-of-the-art technology.

Commonwealth PPS clients do not generally have the option to direct securities brokerage transactions to other broker/dealers or other account custodians. If, however, a client should request, and Commonwealth approve, the use of a broker/dealer other than NFS or Pershing for securities transaction execution, the client should be aware that Commonwealth will generally be unable to negotiate commissions or other fees and charges for the client's account, and Commonwealth would not be able to combine the client's transactions with those of other Commonwealth clients purchasing or selling the same securities ("batched trades"), as discussed further below. As a result, Commonwealth would be unable to ensure that the client receives "best execution" with respect to such directed trades. Commonwealth may also be unable to provide timely monitoring of transaction activity or provide the client with quarterly performance reporting.

Not all investment advisers who are dually registered as broker/dealers or who have affiliated broker/dealers require their clients to use the adviser's broker/dealer to execute transactions.

Although Commonwealth is able to negotiate competitive pricing from NFS and Pershing that it believes is beneficial to its clients, Commonwealth's clearing relationship with NFS in particular provides Commonwealth's broker/dealer with certain economic benefits by using itself as the broker/dealer for its PPS Program accounts rather than an unaffiliated broker/dealer. For example, Commonwealth adds a markup to the transaction costs and certain other brokerage account charges and fees that are assessed to PPS client accounts. Commonwealth also maintains a Bank Deposit Sweep Program with NFS. This program creates financial benefits for Commonwealth and NFS as described in Section D of this Item 12. As broker/dealer of record, Commonwealth also receives the mutual fund and money market 12b-1 fees charged to clients by the underlying funds that they own. This additional compensation received by Commonwealth in its broker/dealer capacity creates a conflict of interest with Commonwealth's clients. Additionally, by using Commonwealth as the broker/dealer for a PPS Program account, Commonwealth may be unable to achieve most favorable execution of client transactions, which may cost clients more money.

In the event a trade error occurs in a client account, and such error is determined to be caused by Commonwealth, your advisor, or any other person other than the client or a person authorized to act on the client's behalf, Commonwealth will cancel the trade and absorb the resulting monetary loss from the client account. In the case of a trade error that requires a correction that results in a monetary gain to the client, such gain will be removed from the client account and may result in a financial benefit to Commonwealth.

## **B. Best Execution**

Commonwealth seeks to obtain, through its clearing firms, the best combination of net price and execution when effecting brokerage transactions for client accounts. Commonwealth periodically and systematically reviews NFS's and Pershing's execution quality and Commonwealth's processes to ensure that Commonwealth continues to meet its best execution obligations for its clients.

A number of judgmental factors are utilized by Commonwealth in analyzing overall trade execution quality. Such factors include, but are not necessarily limited to:

- The nature of the securities being purchased or sold;
- Access to market participants, which may be limited due to thin or no trading activity for a particular security;
- The size of the transaction;
- The speed of the transaction;
- The size of the spread;
- The ability to obtain price improvement;
- The desired timing of the transaction;
- The activity existing and anticipated in the market for the particular security;
- The execution, clearance, and settlement capabilities of the executing broker/dealer;
- The overall trade execution quality of the executing broker/dealer as compared with other leading executing broker/dealers;
- The executing broker/dealer's financial stability and industry reputation; and
- The efficiency and reliability of the executing broker/dealer's systems and technologies.

### **C. Batched or Aggregated Trades**

Because Commonwealth advisors generally manage their client's accounts independently of one another based on each client's specific needs and objectives, transactions for each client account are often executed independently. When advisors believe it is appropriate or beneficial to do so, however, they will often aggregate the purchase or sale of multiple clients' securities together to facilitate best execution, reduce overall brokerage commissions or other costs, or provide each client with the same execution price. Aggregating multiple client orders together is particularly useful when Commonwealth or your advisor is utilizing model portfolio management strategies.

Commonwealth and its advisors effect batched transactions in a manner designed to ensure that no participating client obtains a more favorable execution price over any other client. When Commonwealth or your advisor aggregate multiple client orders, transactions are typically allocated pro rata to the participating client accounts in proportion to the size of the order placed for each account. Commonwealth or your advisor may, however, increase or decrease the amount of securities allocated to each account, if necessary, to avoid holding odd lot or small numbers of shares for particular clients. Additionally, if Commonwealth is unable to fully execute a batched transaction and Commonwealth determines that it would be impractical to allocate a small number of securities among the accounts participating in the transaction on a pro rata basis, Commonwealth may allocate such securities in a manner determined in good faith to be fair and equitable to the clients involved.

In the event a money manager ("Manager") through the PPS Direct Envestnet Program elects to utilize brokers or dealers other than Commonwealth to effect a transaction in a security (commonly referred to as "stepping out" a trade), brokerage commissions and other charges for such transactions are generally charged to the client by the executing broker or dealer, whereas the wrap fee assessed by Commonwealth covers the cost of brokerage commissions on transactions effected through Commonwealth. Clients in the PPS Direct Envestnet Program should be aware that, in cases where a Manager engages in step-out trades, the executing broker or dealer may assess a commission or other charge for having executed the transaction, which will be in addition to the wrap fee assessed by Commonwealth. In such cases, the net purchase or sale price reflected on trade confirmations and brokerage statements provided by Commonwealth on such trades will include the cost of brokerage commissions or dealer markups or markdowns charged by the executing broker and paid for by the client. Due to the additional costs incurred by clients when Managers engage in step-out trades, the Managers that elect to engage in step-out trades will generally cost clients more than those Managers who do not engage in step-out trades. Some Managers have historically directed most, if not all, of their program trades to outside broker/dealers.

In the selection of brokers or dealers to effect transactions, the Manager should, as part of its best-execution obligations, consider all relevant factors, including, but not necessarily limited to, the value of research services, speed and efficiency, execution capability, confidentiality, commission rates, and responsiveness of the executing broker or dealer. The Manager may select brokers or dealers that provide the Manager research or other transaction-related services and may cause the client to pay such brokers or dealers commissions or other transaction-related fees in excess of those that other brokers or dealers may have charged, including Commonwealth.

Such research and other services may be used for the benefit of the Manager's accounts as and where permitted by rule or regulation. Managers that specialize in fixed income, international, small-cap, or ETP disciplines may be more likely to trade away from Commonwealth due to market conditions, liquidity, exchange availability, or other factors they consider relevant in satisfying their best-execution obligations to clients.

Clients should understand that Commonwealth does not evaluate whether a Manager is meeting its best-execution obligations to clients when trading away, as it is not a party to such transactions and is not in a position to negotiate the price or transaction-related charge(s) between the Manager and the executing broker or dealer. Commonwealth does not discourage or restrict a Manager's ability to trade away.

Clients participating in the PPS Direct Envestnet Program should review the Manager's Form ADV Disclosure Brochure carefully prior to deciding to do business with any particular Manager. Among other things, the Manager's Brochure must disclose the Manager's conflicts and various sources of compensation, as well as those costs incurred by clients that may result from engaging in step-out trades, among other things. Clients should also discuss the use or intended use of any particular Manager with their Commonwealth advisor, including the Manager's trading practices and the costs that may be borne by the client should he or she choose to participate in the PPS Direct Envestnet Program.

#### **D. Additional Compensation**

- 1. Soft-Dollars:** Commonwealth does not use commissions to pay for research and brokerage services ("Soft-Dollar Transactions"), but reserves the right to do so in accordance with existing SEC requirements. Before effecting such Soft-Dollar Transactions, however, Commonwealth will determine, in good faith, that commissions are reasonable in relation to the factors set forth below, including the value of the brokerage, research, and other products and services received. Since the allocation of certain "mixed-use" products between hard and soft dollars that may be made by Commonwealth will be on a good-faith basis but may not be precise, the allocation process itself poses a conflict of interest.

Brokerage and research services, along with other products, may be available to Commonwealth on a cash basis at a lower cost. The commissions paid to a broker/dealer providing research or brokerage services to Commonwealth may be higher than those commissions charged by a broker/dealer that does not provide such services to Commonwealth. Brokerage, research, and other products and services provided by broker/dealers to Commonwealth may include, but may not be limited to:

- Written research reports;
- Pre- and post-trade analytics and related software;
- Software that analyzes securities portfolios;
- Market data, such as stock quotes, last sale prices, and trading volumes;
- Company financial and economic data;
- Effecting securities trades;
- Clearance and settlement services;

- Post-trade matching;
- Analytical tools;
- Seminars and conferences;
- Quantitative, economic, and statistical analysis; and
- Non-mass-marketed financial and market newsletters and trade journals.

## **2. Bank Deposit Sweep Program (“BDSP”)**

Commonwealth offers clients access to a variety of different cash sweep vehicles, including money market funds and bank deposit accounts (each a “core account investment vehicle”), that may be used to hold a cash balance that is awaiting reinvestment. The Commonwealth Bank Deposit Sweep Program (“Program” or “BDSP”) is the default core account investment vehicle used to hold your cash balance while awaiting reinvestment for eligible accounts. The cash balance in your eligible Commonwealth brokerage accounts will be deposited automatically or “swept” into interest-bearing FDIC-insurance eligible Program deposit accounts (“Deposit Accounts”) at one or more FDIC-insured financial institutions (each a “Program Bank” or collectively, “Program Banks”). The Program may create financial benefits for Commonwealth and for NFS. We will receive a fee from each Program Bank in connection with the Program (equal to a percentage of all participants’ average daily deposits at the Program Banks). Amounts will vary but in no event will be more than 2% on an annualized basis, as applied across all Deposit Accounts. In our discretion, we may reduce our fee and may vary the amount of the reductions among clients. The fee may vary from Bank to Bank. The amount of fee received will affect the interest rate paid to customers by the Bank. We will also pay a fee to NFS. We reserve the right to modify the fees we receive from Program Banks. From time to time, if the fee increases, clients will receive notification of any such change. In addition to our fee, other service providers with respect to the Program will receive fees from each Bank (collectively, with the fees paid to us and/or NFS, “Program Fees”).

In addition to the Program Fees referenced above, clients’ brokerage accounts generally may be charged additional fees that apply to securities accounts maintained by us. Applicable law governing retirement accounts, such as qualified plans under ERISA, and individual retirement accounts under the Internal Revenue Code, necessitates that interest rates paid by the Program Banks for deposits in the Deposit Accounts, our fee, and other service fees are negotiated at arm’s length, are believed to be fair and reasonable, and are designed to approximate value for the services involved and in the context of customers’ eligible assets.

The Program Banks use Program Deposits for funding current and new lending and for investment activities. The Program Banks earn net income from the difference between the interest they pay on Program Deposits and the fees paid to us and the income they earn on loans, investments, and other assets. As noted above, the Program Banks may pay rates of interest on Program Deposits that are lower than prevailing market interest rates that may have been paid on accounts otherwise opened directly with such Program Bank. Program Banks do not have a duty to provide the highest rates available and may instead seek to pay a low rate. Lower rates may be more financially beneficial to a Program

Bank. There is no necessary linkage between bank rates of interest and the highest rates available in the market, including any money market mutual fund rates. By comparison, a money market mutual fund generally seeks to achieve the highest rate of return (less fees and expenses) consistent with the money market mutual fund's investment objective, which can be found in the fund's prospectus.

The revenue generated by us may be greater than revenues generated by sweep options at other brokerage firms, and may be greater than other core account investment vehicles currently available to you or possible core account investment vehicles that we have used in the past or may consider using in the future. In addition, we will make compensation payments to NFS, our clearing agent, for recordkeeping and other services with respect to amounts invested in the Program, which will be no more than 70 basis points (0.70%). NFS may receive more revenue with respect to amounts in the Program than with respect to other sweep products. As a result of the fees and benefits described above, the Program may be significantly more profitable to us than other available sweep options, if any. We and/or NFS may also benefit from the possession and temporary investment of cash balances prior to the deposit of such balances in the Program. Specific program features of the BDSP are further explained in the Disclosure Document provided to all Commonwealth brokerage clients. A current version of Commonwealth's Bank Deposit Sweep Program Disclosure Document, which is provided to all Commonwealth brokerage clients, is available at [www.commonwealth.com/clients/media/disclosure.pdf](http://www.commonwealth.com/clients/media/disclosure.pdf).

### **3. Money Market Sweep Accounts**

For client assets awaiting reinvestment in money market funds rather than the BDSP, there are generally two classes of money market funds available to clients in accounts held at NFS: Money Class and Reserve Class. Commonwealth has selected the Reserve Class of money funds as the default money fund option in client accounts. The Reserve Class pays Commonwealth 0.45% (45 basis points) higher compensation than the Money Class, and clients in the Reserve Class pay 0.25% (25 basis points) higher 12b-1 fees and receive a lower relative yield than those in the Money Class. Clients may instruct their advisor to manually select a Money Class money fund rather than the default Reserve Class money fund at any time.

### **E. Conflicts of Interest**

As also discussed elsewhere in this Brochure, Commonwealth is a correspondent broker/dealer of NFS and Pershing, to which Commonwealth typically introduces its client transactions for execution, clearance, and settlement. NFS and Pershing provide custody and clearing of client brokerage account assets, including PPS Program accounts. Substantially all of Commonwealth's PPS Program clients establish a securities brokerage account with Commonwealth and execute securities transactions for PPS Program accounts through NFS. In some cases, broker/dealers may be compensated for utilizing their clearing firms' securities transaction and execution services. This industry practice is generally known as "payment for order flow." The practice of receiving payments for order flow does not relieve the executing broker/dealer of its duty to provide best execution for its clients. As a matter of policy, Commonwealth does not receive payment for order flow.

The investment advisory services provided by Commonwealth may cost the client more or less than purchasing similar services separately. Clients should consider whether or not the appointment of Commonwealth as the sole broker/dealer may result in certain costs or disadvantages to the client as a result of possibly less favorable executions. Factors to consider include the type and size of the account and the client's historical and expected account size or number of trades.

Commonwealth may offer your advisor one or more forms of financial benefits based on your advisor's total AUM held at Commonwealth or in Commonwealth's own PPS Program accounts, or financial assistance for transitioning from another firm to Commonwealth. The types of financial benefits that your advisor may receive from Commonwealth include, but may not be limited to, forgivable or unforgivable loans, enhanced payouts, and discounts or waivers on transaction, platform and account fees, technology fees, research package fees, financial planning software fees, administrative fees, brokerage account fees, account transfer fees, and the cost of attending conferences and events. The enhanced payouts, discounts, and other forms of financial benefits that your advisor may have the opportunity to receive from Commonwealth could provide a financial incentive for your advisor to select Commonwealth as broker/dealer for your accounts over other broker/dealers from which they may not receive similar financial benefits or to use certain Commonwealth PPS programs over other programs available through Commonwealth.

### **Item 13          Review of Accounts**

Commonwealth home office Compliance and Operations principals, senior members of Commonwealth's Advanced Planning team, and/or designated Office of Supervisory Jurisdiction ("OSJ") branch managers periodically review client accounts and financial plans to identify situations that may warrant either a more detailed review or a specific action on behalf of an advisory client.

Commonwealth utilizes a series of surveillance, exception, trade, and other transaction reports that are designed to help facilitate the ongoing review of Commonwealth's managed accounts. In addition, Commonwealth advisors provide continual and regular investment advice or investment supervisory services to clients, routinely review client portfolios, and are responsible for communicating with clients at least annually.

There are a wide variety of reports and supervisory controls in place to review Commonwealth accounts. Among some of the reports utilized by Commonwealth to conduct these reviews are the following:

<b>Report</b>	<b>Review Frequency</b>	<b>Nature of Report</b>
State Licensing Report	Daily	To identify transactions for which the advisor or OSJ manager was not properly licensed in a state prior to transacting business
Large Withdrawal Report	Daily	To identify suspicious large withdrawal activity

Journal Report	Daily	To identify suspicious money movement
Personal Security Transactions	Weekly	To identify potential violations of Commonwealth's Code of Ethics
Option Report	Quarterly	To identify accounts with a high volume of option trades
PPS Custom Activity Analysis	Quarterly	To conduct trading activity analysis on PPS accounts and advisors
PPS Out of Balance Report	Quarterly	To identify accounts out of balance from a client's stated objectives

## **Item 14      Client Referrals and Other Compensation**

### **A. Other Compensation Received from Product Sponsors**

Through our national network of advisors, Commonwealth offers access to a broad selection of securities products, including mutual funds, variable insurance products, College 529 Savings Plans, direct participation programs, and nontraded alternative investments. Companies for many of the products we sell participate in activities that are designed to help facilitate the distribution of their products. These companies sponsor Commonwealth advisors' access to educational programs and due diligence meetings designed to help advisors be more knowledgeable about those companies' products, operations, and management, and they provide marketing support to the advisors that is intended to help them grow their business.

In addition to the support that these companies provide directly to Commonwealth's advisors, Commonwealth receives additional compensation in the form of annual payments, typically paid in quarterly installments, directly from these companies. This compensation is in addition to the customary commissions, distribution fees, and other fees that are paid to Commonwealth by these companies. The annual payments are made from the product sponsor's or an affiliate's own assets and not from investor assets. No portion of the annual payments to Commonwealth are paid from brokerage commissions generated by the purchases of any specific investment.

In exchange for the annual payments Commonwealth receives from these product sponsors, Commonwealth will provide a variety of benefits to these companies. These benefits include, but are not limited to, direct access to Commonwealth's senior leadership, research, and product support staff; invitations to Commonwealth-sponsored meetings and events, which may include direct access to Commonwealth advisors; ability to post product marketing and educational materials to Commonwealth's internal web portal used by Commonwealth advisors; access to Commonwealth's proprietary investment models, research, and analysis; and contact information for Commonwealth advisors.

None of the annual payments received by Commonwealth are paid or directed to any advisor who sells a sponsor's products. Commonwealth advisors do not receive a greater or lesser



commission for sales of these sponsors' products for which Commonwealth receives annual payments. Because Commonwealth's advisors receive no direct increase or change in compensation from selling a certain sponsor's products over those of another sponsor's products, we do not believe that they are subject to a conflict of interest based on the amount of compensation each advisor receives when recommending one sponsor's products over another's. The marketing support, due diligence meetings, and educational activities received by advisors that are paid for by the sponsors do, however, create a conflict of interest because they may lead our advisors to focus more on or otherwise recommend or promote the products of those sponsors that provide support to the advisor over those that do not provide such support.

Additional information describing the support and annual payment made from product sponsors or from an affiliate's own assets is provided on the Revenue Sharing Disclosure, which is available at [www.commonwealth.com/clients/revenue-sharing.aspx](http://www.commonwealth.com/clients/revenue-sharing.aspx).

**Investment Adviser/Asset Management Programs.** Commonwealth and/or its advisors may receive reimbursements, marketing and distribution allowances, due diligence fees, or other compensation based on deposits and/or AUM directly from TPAM program sponsors (collectively, "Program Sponsors") for the costs of marketing, distribution, business and client development, educational enhancement, and/or due diligence reviews incurred by Commonwealth and/or the advisor relating to the promotion or sale of the Program Sponsor's products or services.

In all cases, such reimbursements, marketing allowances, or other compensation will be paid to Commonwealth and/or the advisor from the Program Sponsor's own resources and not from client funds or assets. Depending upon the specific arrangement, payments are based upon an annual, flat, or level fee arrangement. Program Sponsors may also opt to pay Commonwealth a quarterly fee based upon deposits or AUM and/or some combination thereof on an annual basis based upon certain allowable assets.

**Payments to Commonwealth Advisors.** In addition to receiving asset-based fees in their capacity as an investment adviser or solicitor, Commonwealth advisors may receive reimbursements or marketing allowances for marketing expenses and business development costs incurred by the advisor. In addition, advisors may receive invitations to conferences and meetings that are sponsored by firms that offer TPAM programs to the advisor. Portfolio strategists, investment managers, and product manufacturers may contribute to the cost of the conferences and meetings, may be identified as a sponsor of the conference or meeting, and may have the opportunity to promote their products, programs, and services directly to the financial advisor. Additionally, the advisor's travel-related costs and expenses, meals, and entertainment may be paid or subsidized by the firms. These payments to Commonwealth advisors present a conflict of interest because they provide a financial incentive for advisors to recommend clients use a particular TPAM Program that offers these payments and opportunities over other TPAM programs that do not offer such payments or opportunities.

Commonwealth will provide advisors with a quarterly credit as a percentage of the platform fee (up to a maximum of 40%) paid by their clients based on their advisor group's total AUM within the PPS Custom Program (Platform). Advisors may choose to retain this credit in full, or they

may use all or part of the credit to subsidize the platform fee paid by one or more of their clients, in their sole discretion.

**Payments to Commonwealth.** Consistent with prudent product approval practices, Commonwealth conducts or causes to be conducted a due diligence analysis of these Program Sponsors in making them available to the public through its advisors. Additionally, Commonwealth receives distribution allowances and other payments from certain Program Sponsors. While the arrangements Commonwealth has with each sponsor varies, a Program Sponsor may pay Commonwealth additional compensation for marketing expenses, distribution allowances, due diligence, or other compensation of up to 10 basis points (0.10%) annually on deposits or assets held at the Program Sponsor. These additional payments are retained by Commonwealth, and none of these additional payments is paid or shared with any Commonwealth advisor. Even though these payments are not shared with your Commonwealth advisor, the receipt of these payments from Program Sponsors by Commonwealth creates a conflict of interest for clients because Commonwealth may choose to make available those Program Sponsors that provide these payments to Commonwealth over those Program Sponsors that do not make such payments.

In exchange for the annual payments Commonwealth receives from Program Sponsors, Commonwealth will provide a variety of benefits to these companies. These benefits include, but are not limited to, direct access to Commonwealth's senior leadership, research, and product support staff; invitations to Commonwealth-sponsored meetings and events, which may include direct access to Commonwealth advisors; ability to post product marketing and educational materials to Commonwealth's internal web portal used by Commonwealth advisors; access to Commonwealth's proprietary investment models, research, and analysis; and contact information for Commonwealth advisors. The existence of the additional benefits provided by Commonwealth to Program Sponsors, in exchange for the annual payments these Program Sponsors make to Commonwealth, creates a conflict of interest because Commonwealth or your financial advisor may recommend or promote the products of those Program Sponsors that make such payments to Commonwealth over those that do not.

Additionally, NFS offers an NTF program composed of no-load mutual funds. Participating mutual fund sponsors pay a fee to NFS to participate in this program, and a portion of this fee is shared with Commonwealth. None of these additional payments is paid to any advisors who sell these funds. NTF mutual funds may be purchased within an investment advisory account at no charge to the client. Clients, however, should be aware that funds available through the NTF program often contain higher internal expenses than mutual funds that do not participate in the NTF program. Commonwealth's receipt of a portion of the fees associated with the NTF program creates a conflict of interest because Commonwealth has an incentive to make available or to recommend those products, or make investment decisions regarding investments, that provide such compensation to NFS and Commonwealth over those mutual fund sponsors that do not make such payments to NFS and Commonwealth.

**Bank Deposit Sweep Program.** Commonwealth offers clients access to a variety of different cash sweep vehicles, including money market funds and bank deposit accounts, that may be used to hold a cash balance that is awaiting reinvestment. For Commonwealth clients who establish

accounts at Commonwealth through NFS, the Commonwealth Bank Deposit Sweep Program (“Program”) is the default core account investment vehicle used to hold your cash balance while awaiting reinvestment for eligible accounts. The cash balance in your eligible brokerage accounts will be deposited automatically or “swept” into interest-bearing FDIC-insurance-eligible Program deposit accounts at one or more FDIC-insured financial institutions. The Program may create financial benefits for Commonwealth and NFS. We will receive a fee from each Program Bank in connection with the Program (equal to a percentage of all participants’ average daily deposits at the Program Banks). Amounts will vary, but in no event will they be more than 2% on an annualized basis, as applied across all Deposit Accounts. There are more details about the sweep vehicle arrangements in the “Brokerage Practices” section of this document.

**Commonwealth as Solicitor.** Commonwealth and your advisor may serve as solicitors for a variety of third-party investment advisers with respect to some or all of your assets. In such cases, Commonwealth and your advisor are compensated by these third-party investment advisers for referring your advisory business to them. This compensation generally takes the form of the third-party investment adviser sharing with Commonwealth and the advisor a portion of the advisory fee the third-party investment adviser charges you. Commonwealth and your advisor, therefore, have a conflict of interest to refer your advisory business to those third-party investment advisers that pay referral fees to Commonwealth, or to those that pay higher referral fees to Commonwealth.

Commonwealth and/or your Commonwealth advisor may also receive training and educational support, marketing support, enhanced service, invitations to attend conferences or meetings, or some other economic benefit in addition to its receipt of the referral fee discussed above from a third-party investment adviser to whom we have referred your advisory business. This support or other economic benefit will be paid from the third-party investment adviser’s own funds and not from client funds. Commonwealth and your advisor, however, have a conflict of interest to favor referring your advisory business to those third-party investment advisers that provide such support or other economic benefit over those advisers that don’t provide such support or other benefits.

## **B. Commonwealth’s Use of Solicitors**

The Commonwealth Alliance Program (“CAP”) is a referral program designed to compensate outside professionals or firms, such as attorneys, accountants, or other broker/dealers and investment advisers, for referring your advisory business to Commonwealth and your advisor. These professionals or firms are known as “solicitors.” If your advisory account is referred by a solicitor to Commonwealth or your advisor, Commonwealth and your advisor will pay a portion of the advisory fee you pay us to the solicitor, typically for as long as you maintain an advisory relationship with us, to compensate the solicitor for the referral. Commonwealth will not charge a client who is referred to Commonwealth by a solicitor any amount for the cost of obtaining the client that is in addition to the fee normally charged by Commonwealth for its investment advisory services. The amount of this compensation, however, may be more than what the solicitor would receive if the client participated in our other programs or paid separately for investment advice, brokerage, and other services. The solicitor, therefore, may have a financial incentive to recommend one or more of Commonwealth’s wrap fee programs over other programs or services that may be available to the client.

Such solicitation arrangements are disclosed to clients at the time of the solicitation via execution of a Solicitor Disclosure Statement or similar document that outlines the nature and amount of the compensation we pay to the solicitor and whether or not the solicitor is affiliated with or related to Commonwealth. Solicitors are required to provide prospective clients with a current copy of Commonwealth's Form ADV Part 2 no later than the date on which the client enters into an advisory relationship with Commonwealth and the advisor.

## **Item 15           Custody**

### **A. Custody Services**

Commonwealth maintains a primary clearing relationship for the execution of client transactions with NFS as the account custodian. Commonwealth maintains a secondary clearing relationship for the execution of client transactions with Pershing as the account custodian. Substantially all of Commonwealth's PPS advisory clients must select Commonwealth as the broker/dealer of record and NFS as the clearing firm for their PPS managed accounts. In all cases, the name and address of the account custodian will be identified in the respective PPS managed account client agreement.

Clients who establish a managed account with Commonwealth as the broker/dealer of record will receive custodial account statements directly from the respective custodian that holds those assets, such as NFS, Pershing, or a direct product sponsor. Clients should carefully review the statements they receive from their account custodians and should promptly report material discrepancies to Commonwealth directly at 800.237.0081.

### **B. Performance Reporting**

Commonwealth clients may also receive portfolio summary or performance reporting for their Commonwealth managed accounts from Commonwealth or their advisor that are in addition to the account statements clients receive directly from the respective account custodian. Commonwealth urges you to compare the account statements you receive from your account custodian with any account summary statements or reports you receive from us or your advisor. Although account holdings and asset valuations should generally match, for purposes of calculating performance and account valuations on your PPS Program account, Commonwealth summary or performance reporting month-end market values sometimes differ from custodial account statement month-end market values. The three most common reasons why these values may differ are differences in the manner in which accrued interest is calculated, the date upon which "as of" dividends and capital gains are reported, and settlement date versus trade date valuations.

If you believe there are material discrepancies between your custodial statement and the summary statements or reports you receive from Commonwealth or your advisor, please contact Commonwealth directly at 800.237.0081.

## **Item 16           Investment Discretion**

### **A. General**

Commonwealth renders investment advice to the vast majority of its managed account clients on a discretionary basis, pursuant to written authorization granted by the client to Commonwealth

and your advisor. This authorization grants to Commonwealth and your advisor the discretion to buy, sell, exchange, convert, or otherwise trade in securities and/or insurance products that are approved by Commonwealth, and to execute orders for such securities and/or insurance products with or through any distributor, issuer, or broker/dealer as Commonwealth or your advisor may select. Your advisor may, without obtaining your consent, determine which products to purchase or sell for your managed account, as well as when to purchase or sell such products, and the prices to be paid. Neither Commonwealth nor your advisor, however, is granted authority to take possession of your assets or direct the delivery of your assets to anywhere other than your address of record.

### **B. Level of Authority**

Clients may impose reasonable restrictions on their managed account, including, but not limited to, the type, nature, or specific names of securities to be bought, sold, or held in their managed account, as well as the type, nature, or specific names of securities that may not be bought, sold, or held in their managed account. Clients generally grant Commonwealth and their advisor discretionary trading authority over their PPS Program accounts. If not specifically requested otherwise by the client, discretionary authority will be established at the time the account is first opened. Commonwealth's PPS Custom Program does, however, permit the client to choose to have Commonwealth and the advisor provide investment advice and recommendations to the client on a nondiscretionary basis. Clients who wish to receive advice with respect to their PPS Custom managed account on a nondiscretionary basis would need to execute an amendment to the PPS Custom Client Agreement to modify the agreement to be nondiscretionary. Clients may request a copy of the nondiscretionary amendment form from their advisor if they desire to exercise this option.

### **C. Miscellaneous Authority**

As a matter of firm policy, neither Commonwealth nor its advisors have or will accept the authority to file class action claims on behalf of clients. This policy reflects Commonwealth's recognition that it does not have the requisite expertise to advise clients with regard to participating in class actions. Commonwealth and its advisors have no obligation to determine if securities held by the client are subject to a pending or resolved class action settlement or verdict. Commonwealth and its advisors also have no duty to evaluate a client's eligibility or to submit a claim to participate in the proceeds of a securities class action settlement or verdict. Furthermore, Commonwealth and its advisors have no obligation or responsibility to initiate litigation to recover damages on behalf of clients who may have been injured because of actions, misconduct, or negligence by corporate management of issuers whose securities are held by clients. The decision to participate in a class action or to sign a release of claims when submitting a proof of claim may involve the exercise of legal judgment, which is beyond the scope of services provided to clients by Commonwealth or your advisor. In all cases, clients retain the responsibility for evaluating whether it is prudent to join a class action or to opt out.

## **Item 17      Voting Client Securities**

### **A. General**

As a matter of firm policy, and in accordance with this Brochure and our advisory client agreements, neither Commonwealth nor its advisors have or will accept the authority to vote

proxies on behalf of advisory clients in any situation where Commonwealth or the adviser acts as investment adviser to the client. Commonwealth or its advisors may, but are not obligated to, provide advice to clients regarding the clients' voting of proxies. In all cases, clients must either retain the responsibility for receiving and voting proxies for any and all securities maintained in their managed accounts, or they must appoint a third-party investment adviser or other person who is not associated with Commonwealth to vote proxies for their managed accounts.

In the event the advisor chooses to provide advice to clients designed to assist the client in making a decision as to how to vote their proxies, the advisor has a fiduciary duty to disclose to the client any material conflicts of interest the advisor may have with respect to such advice. In all cases, Commonwealth or the advisor will send, or will cause to be sent, all such proxy and legal proceedings information and documents it receives to the client, so that the client may take whatever action the client deems advisable under the circumstances.

### **B. PPS Direct and TPAM Programs**

In situations when the client uses a PPS Direct or unaffiliated TPAM Program to manage his or her portfolio, where permissible, the client may grant the program's designated third-party asset manager discretion to vote proxies with respect to any securities purchased or held in the account; to execute waivers, consents, and other instruments with respect to such securities; and to consent to any plan of reorganization, merger, combination, consolidations, liquidation, or similar plan with reference to such securities.

In such cases, all proxy and legal proceedings information and documents received by Commonwealth or the advisor relating to the securities within PPS Direct or TPAM Program accounts must be forwarded to the designated asset manager as the client's agent and attorney-in-fact with respect to proxy voting.

If the client has not appointed a third-party asset manager as the client's agent and attorney-in-fact with respect to proxy voting, such proxies must be provided directly to the client who shall have the exclusive responsibility to take whatever action the client deems appropriate.

## **Item 18 Financial Information**

Some Commonwealth advisors who provide Wealth Management Consulting or Retirement Plan Consulting services to clients may require prepayment of more than \$1,200 in fees six (6) months or more in advance. Commonwealth also maintains custody of certain client assets and in certain instances, as defined in SEC Rule 206(4)-2. Additionally, pursuant to the trading authorization granted by Commonwealth managed account clients to Commonwealth and their advisor, Commonwealth has discretionary trading authority over the funds and securities of clients.

Commonwealth neither has a financial commitment that would impair its ability to meet its contractual and fiduciary commitments to clients, nor has Commonwealth been the subject of a bankruptcy proceeding.

# COMMONWEALTH FINANCIAL NETWORK®

## STATEMENTS OF FINANCIAL CONDITION DECEMBER 31, 2016, AND 2015

	2016	2015
<b>Assets</b>		
Cash and cash equivalents	\$ 50,126,502	\$ 47,170,079
Restricted cash and cash equivalents	3,102,036	2,857,064
Receivables:		
Brokers and clearing organizations	20,048,807	18,291,697
Employees and registered representatives	42,491,759	40,295,591
Other	104,998	91,636
Securities owned, at fair value	76,778,347	53,843,191
Property and equipment, net	17,776,671	15,233,001
Deferred tax assets	1,355,414	1,009,412
Other assets	4,075,878	4,219,530
Deposits with clearing organizations	50,000	50,000
<b>Total Assets</b>	<b>\$ 215,910,412</b>	<b>\$ 183,061,201</b>
<b>Liabilities and Shareholders' Equity</b>		
Accrued liabilities	\$ 20,284,020	\$ 13,151,950
Accrued deferred compensation	57,060,087	49,956,453
Payables:		
Brokers and clearing organizations	9,956,555	10,320,159
Trade and reimbursements	4,729,229	4,739,599
Dividends payable	11,295,207	9,481,811
Subordinated borrowings – related parties	93,155,000	85,155,000
Capital lease obligations	7,203,710	--
Other liabilities	37,533	442,899
Income tax payable	63,373	41,273
Due to affiliates	590,611	246,479
<b>Total Liabilities</b>	<b>204,375,325</b>	<b>173,535,623</b>
<b>Shareholders' Equity</b>		
3,400,000 shares authorized and 2,400,000 shares issued and outstanding at December 31, 2016, and 2015	3,254,564	3,254,564
Retained earnings	8,280,523	6,271,014
<b>Total Shareholders' Equity</b>	<b>11,535,087</b>	<b>9,525,578</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 215,910,412</b>	<b>\$ 183,061,201</b>

August 1, 2017

## **Commonwealth Financial Network<sup>®</sup>**

### **Form ADV Part 2A – Appendix 2: *Variable Contract Subaccount Allocation Wrap Fee Program Brochure***

29 Sawyer Road  
Waltham, MA 02453-3483  
Toll-Free: 800.237.0081  
Phone: 781.736.0700  
***www.commonwealth.com***

110 West A Street, Suite 1800  
San Diego, CA 92101-3706  
Toll-Free: 877.347.1982  
Phone: 619.471.9700

This wrap fee program brochure provides information about the qualifications and business practices of Commonwealth Financial Network<sup>®</sup> (“Commonwealth”). If you have any questions about the contents of this Brochure, please call us at 800.237.0081 or e-mail us at ***FormADVPart2@commonwealth.com***. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

Commonwealth is a Registered Investment Adviser. Registration of an investment adviser does not imply any level of skill or training.

Additional information about Commonwealth is available on the SEC’s website at ***www.adviserinfo.sec.gov***.



## **Item 2            Material Changes**

There are no material changes. Any future material changes to this appendix will be summarized in this section.

You may request a copy of our current Brochure at any time, without charge, by calling us at 800.237.0081 or e-mailing us at ***FormADVPart2@commonwealth.com***.

Additional information about Commonwealth is available via the SEC's Investment Adviser Public Disclosure website at ***www.adviserinfo.sec.gov***. The SEC's website also provides information about any persons affiliated with Commonwealth who are registered, or are required to be registered, as Investment Adviser Representatives of Commonwealth.

**Item 3            Table of Contents**

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Item 9            Additional Information

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

### **PPS Custom Variable Contract Subaccount Allocation Program Services, Fees, and Compensation**

The Preferred Portfolio Services® (“PPS”) Custom Variable Contract Subaccount Allocation Program enables the Commonwealth advisor to assist clients with contracts at variable annuity sponsors in developing a personalized investment portfolio using the sponsor’s subaccount holdings. The advisor typically acts as portfolio manager, with full investment discretion, although clients may also select a nondiscretionary program account.

The maximum annual total program fee for PPS Custom Variable Contract Subaccount Allocation accounts may not exceed 2.00% of assets under management and is negotiable between the advisor and the client.

Clients participating in the PPS Custom Variable Contract Subaccount Allocation Program may pay more or less than clients might otherwise pay if purchasing the services separately. There are several factors that determine whether such costs would be more or less, including, but not limited to, the following:

- Size of the contract
- Specific subaccount investments made by the client and strategies involved
- Amount of trading effected by the advisor
- Actual costs of such services if purchased separately

The advisory fees charged for the services provided by Commonwealth and your advisor, including research, supplemental advisory, and client-related services offered through the PPS Custom Variable Contract Subaccount Allocation Program, may exceed those of other similar programs.

In addition to the advisory fees noted above, clients may also incur certain charges imposed by third parties other than Commonwealth or your advisor in connection with subaccount investments made through the PPS Program. These may include, but are not limited to, the following:

- Variable annuity subaccount 12b-1 fees, subtransfer agent fees, and distributor fees
- Variable annuity subaccount management fees, as well as administrative and operational expenses
- Variable annuity subaccount redemption fees
- Other transaction charges and service fees such as electronic funds and wire transfers, exchange fees, return check charges, and transfer taxes and fees
- IRA trustee or custodian fees, tax-qualified retirement plan account fees, and annual and termination fees for retirement variable annuity contracts, such as IRAs
- Contingent deferred sales charges (“CDSC”) and/or annuity surrender charges imposed upon the variable annuity contract when certain withdrawals are made or the account is closed
- Optional services elected by clients
- Other charges that may be required by law

Commonwealth and your advisor may receive a portion of these fees. More information about the fees and charges assessed by variable annuity subaccounts may be found in the investment product prospectus, statement of additional information, and/or offering document for the specific investment products utilized in the program.

Commonwealth sponsors several wrap fee programs. A copy of the appendix for these wrap fee brochures can be obtained by calling 800.237.001 or by going to [www.commonwealth.com/clients/adv-part-2a.aspx](http://www.commonwealth.com/clients/adv-part-2a.aspx). The advisory fees charged for the services provided by Commonwealth and your advisor, and the cost of the client-related services offered through PPS Custom Variable Contract Subaccount Allocation program, including research, supplemental advisory, and client-related services, may exceed those of other similar programs.

**Special Disclosures for ERISA Plans:** In this Brochure, Commonwealth has disclosed conflicts of interest, such as receiving additional compensation from third parties (e.g., 12b-1 fees, subtransfer agent fees, and revenue sharing) for providing marketing, recordkeeping, or other services in connection with certain investments. Commonwealth, however, has adopted policies and procedures that are designed to ensure compliance with the prohibited transaction rules under the Employee Retirement Income Security Act of 1974 (“ERISA”), as amended. For example, Commonwealth has taken several steps to address the conflict of interest associated with Commonwealth’s or Commonwealth’s advisors’ receipt of compensation for services provided to ERISA plans.

First, an advisor negotiates the compensation with ERISA plan sponsors or participants (“ERISA clients”) and the compensation is either an annual fee for ongoing services based on a percentage of assets under advisement, a flat fee, or an hourly rate. Second, to the extent that an advisor receives additional compensation from a third party, the advisor must report it to Commonwealth to enable the additional compensation to be offset against the fees that the ERISA clients would otherwise pay for the advisor’s services. Third, Commonwealth has established a policy not to influence any advisor’s advice or management of assets at any time or for any reason based on any compensation that Commonwealth or the advisor might receive from third parties. In no event will Commonwealth allow advisors to provide advice or manage assets for ERISA clients if they have conflicts of interest that Commonwealth believes are prohibited by ERISA.

As a covered service provider to ERISA plans, Commonwealth will comply with the U.S. Department of Labor regulations on fee disclosures, effective July 16, 2011 (or such other date as provided by the Department). Thus, Commonwealth and its advisors will disclose (i) direct compensation received from ERISA clients; (ii) indirect compensation (e.g., 12b-1 fees) received from third parties; and (iii) transaction-based compensation (e.g., commissions) or other similar compensation shared with related parties servicing the ERISA plan. These fee disclosures will be made reasonably in advance of entering into, renewing, or extending the advisory service agreement with the ERISA client.

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

### **PPS Custom Variable Contract Subaccount Allocation Program**

The PPS Custom Variable Contract Subaccount Allocation Program is generally available to variable annuity contracts with an initial value of at least \$25,000.

#### **All Programs**

Clients may make additions to, or withdrawals from, their managed accounts upon notice to Commonwealth or to the respective program sponsor. If at any time withdrawals of account assets cause the account value to be less than the required minimum account size, the Client Agreement may be subject to termination. Clients should understand that Commonwealth's managed account programs are designed as long-term investment vehicles and that asset withdrawals may impede the achievement of the client's investment objectives. Clients should also understand that there is no guarantee that their investment objectives will be achieved, regardless of the type of program account selected.

The majority of Commonwealth clients are retail clients, such as individual and joint owners, revocable and irrevocable trusts, individual retirement accounts, self-directed 401(k) participant accounts, Section 529 Plan accounts, and custodial accounts. Commonwealth also manages assets held in corporate, pension, 401(k), defined benefit plan, and municipality accounts, among others.

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

### **PPS Custom Variable Contract Subaccount Allocation Program**

Commonwealth home office Compliance and Operations principals, senior members of Commonwealth's Advanced Planning team, and/or designated Office of Supervisory Jurisdiction ("OSJ") branch managers periodically review client accounts and financial plans to identify situations that may warrant either a more detailed review or a specific action on behalf of an advisory client.

Commonwealth uses a series of surveillance, exception, trade, and other transaction reports that are designed to help facilitate the ongoing review of Commonwealth's managed accounts. In addition, Commonwealth advisors provide continual and regular investment advice or investment supervisory services to clients, routinely review client portfolios, and are responsible for communicating with clients at least annually.

Since Commonwealth itself is the sponsor of the PPS Custom Variable Contract Subaccount Allocation Program and receives electronic transaction and account data directly from annuity sponsors, Commonwealth prepares and makes available to PPS Custom Variable Contract clients its own performance reports. Commonwealth urges you to compare the account statements you receive from your annuity sponsor with any account summary statements you receive from us or your advisor. Although variable annuity contract holdings and asset valuations should generally match, for purposes of calculating performance and account valuations on your PPS Program contract, Commonwealth summary or performance statement month-end market values sometimes differ from custodial account statement month-end market values. The three most

common reasons why these values may vary are differences in the manner in which accrued interest is calculated, the date upon which “as of” dividends and capital gains are reported, and settlement date versus trade date valuations.

If you believe there are material discrepancies between your custodial statement and the summary statements or reports you receive from Commonwealth or your advisor, please promptly call Commonwealth directly at 800.237.0081.

### **“Wrap” Program**

Commonwealth’s wrap fee programs differ from other programs in that the fee structure for wrap programs is all-inclusive, whereas non-wrap fee programs assess trade execution costs that are in addition to the investment advisory fees. PPS Custom Variable Contract Subaccount Allocation contracts are managed by your Commonwealth advisor in accordance with his or her own investment methodology and philosophy.

For the investment advisory services provided to you by Commonwealth and your advisor, Commonwealth and your advisor receive a portion of the investment advisory fee you pay when you participate in any managed account program through Commonwealth.

### **Individualized Services and Client-Imposed Restrictions**

The investment advisory services provided by Commonwealth advisors depend largely on the personal information the client provides to the advisor. For Commonwealth advisors to provide appropriate investment advice to, or, in the case of discretionary accounts, make appropriate investment decisions for, the client, it is very important that clients provide accurate and complete responses to their advisor’s questions about their financial condition, needs and objectives, and any reasonable restrictions they wish to apply to the management of the subaccount allocations of the variable annuity contract, such as certain specific subaccount investments that they do not want the advisor to purchase, sell, or hold in the account. It is also important that clients inform their Commonwealth advisor of any changes in their financial condition, investment objectives, personal circumstances, and reasonable investment restrictions on the variable annuity contract, if any, that may affect the client’s overall investment goals and strategies.

In general, the client’s Commonwealth advisor is responsible for delivering investment advisory services to clients, and clients generally deal with matters relating to their accounts by contacting their Commonwealth advisor directly.

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

Commonwealth does not charge any performance-based fees (i.e., fees based on a share of capital gains on or capital appreciation of the assets of a client).

### **Methods of Analysis and Investment Strategies**

Investing in securities involves risk of loss that investors should be sure they understand and should be prepared to bear.

Commonwealth primarily serves retail investors. Each advisor associated with Commonwealth has the independence to take the approach he or she believes is most appropriate when analyzing investment products and strategies for clients. There are several sources of information that Commonwealth and the advisor may use as part of the investment analysis process. These sources include, but are not limited to:

- Financial publications
- Research materials prepared by others
- Corporate rating services
- SEC filings (i.e., annual reports, prospectuses, 10-Ks, etc.)
- Company press releases

As a firm, Commonwealth does not favor any specific method of analysis over another and, therefore, would not be considered to have one approach deemed to be a “significant strategy.” There are, however, a few common approaches that may be used by Commonwealth or your advisor, individually or collectively, in the course of providing advice to clients. Please note that there is no investment strategy that will guarantee a profit or prevent loss. Following are some common strategies employed by advisors in the management of client accounts:

- **Dollar Cost Averaging (“DCA”):** The technique of buying a fixed dollar amount of a particular investment on a regular schedule, regardless of the share price. More shares are purchased when prices are low, and fewer shares are bought when prices are high. DCA is believed to lessen the risk of investing a large amount in a single investment at higher price. DCA strategies are not effective and do not prevent against loss in declining markets.
- **Asset Allocation:** An investment strategy that aims to balance risk and reward by allocating assets among a variety of asset classes. At a high level, there are three main asset classes—equities (stocks), fixed income (bonds), and cash/cash equivalents—each of which has different risk and reward profiles/behaviors. Asset classes are often further divided into domestic and foreign investments, and equities are often divided into small, intermediate, and large capitalization. The general theory behind asset allocation is that each asset class will perform differently from the others in different market conditions. By diversifying a portfolio of investments among a wide range of asset classes, advisors seek to reduce the overall volatility and risk of a portfolio through avoiding overexposure to any one asset class during various market cycles. Asset allocation does not guarantee a profit or protect against loss.
- **Technical Analysis (aka “Charting”):** A method of evaluating securities by analyzing statistics generated by market activity, such as past prices and volume. Technical analysts do not attempt to measure a security’s intrinsic value. Instead, they use charts and other tools to identify patterns that can suggest future activity. When looking at individual equities, a person using technical analysis generally believes that performance of the stock, rather than performance of the company itself, has more to do with the company’s future stock price. It is important to understand that past performance does not guarantee future results.

- **Fundamental Analysis:** A method of evaluating a security that entails attempting to measure its intrinsic value by examining related economic, financial, and other qualitative and quantitative factors. Fundamental analysts attempt to study everything that can affect the security's value, including macroeconomic factors (e.g., the overall economy and industry conditions) and company-specific factors (e.g., financial condition and management). The end goal of performing fundamental analysis is to produce a value that an investor can compare with the security's current price, with the aim of figuring out what sort of position to take with that security (underpriced = buy, overpriced = sell or short). This method of security analysis is considered to be the opposite of technical analysis.
- **Quantitative Analysis:** An analysis technique that seeks to understand behavior by using complex mathematical and statistical modeling, measurement, and research. By assigning a numerical value to variables, quantitative analysts try to replicate reality mathematically. Some believe that it can also be used to predict real-world events, such as changes in a share price.
- **Qualitative Analysis:** Securities analysis that uses subjective judgment based on nonquantifiable information, such as management expertise, industry cycles, strength of research and development, and labor relations. This type of analysis technique is different from quantitative analysis, which focuses on numbers. The two techniques, however, are often used together.

### **Voting Client Securities**

As a matter of firm policy, and in accordance with this Brochure and our advisory client agreements, neither Commonwealth nor its advisors have or will accept the authority to vote proxies on behalf of advisory clients in any situation where Commonwealth or the adviser acts as investment adviser to the client. Commonwealth or its advisors may, but are not obligated to, provide advice to clients regarding the clients' voting of proxies. In all cases, clients must either retain the responsibility for receiving and voting proxies for any and all securities maintained in their managed accounts, or they must appoint a third-party investment adviser or other person who is not associated with Commonwealth to vote proxies for their managed accounts.

In the event the advisor chooses to provide advice to clients designed to assist the client in making a decision as to how to vote their proxies, the advisor has a fiduciary duty to disclose to the client any material conflicts of interest the advisor may have with respect to such advice.

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

Commonwealth's PPS Custom Variable Contract Subaccount Allocation Program enables the Commonwealth advisor to collect financial data from clients, help clients determine the suitability of the investments in the variable annuity contract, and help clients identify the appropriate investment objectives and strategies to be used. Commonwealth and the advisor use the client's PPS Custom Variable Contract Subaccount Allocation Client Agreement at the time the variable annuity contract is established for this purpose. Copies of updates that are made to the Client Agreement are provided to Commonwealth as changes occur. The Client Agreement information includes, but is not limited to, the client's name, contact information, personal identification information, financial information, investment time horizon, risk tolerance, and portfolio name and description that is selected by the client. The advisor is responsible for



monitoring any restrictions that the client wishes to impose on the management of his or her variable annuity contract.

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

Clients may contact their Commonwealth advisor to discuss the management of their Commonwealth accounts during normal business hours.

## **Item 9            Additional Information**

### **Disciplinary Information**

Following is a list of those legal or disciplinary events that may be material to your evaluation of Commonwealth or the integrity of Commonwealth's management.

During the period from December 7, 2009, to January 28, 2012, Commonwealth used a system to comply with its regulatory obligations pertaining to archiving, preserving, and supervising the business-related e-mails of its associated persons. During this period, Commonwealth's e-mail surveillance system failed to subject about 12.6 million of our associated persons' outgoing e-mails to our daily e-mail surveillance protocol and failed to surveil approximately 474,380 e-mails that were sent or received by our registered representatives ("RRs"). These failures violated NASD Conduct Rules 3010(a) and 3010(d)(2) and FINRA Rule 2010. Despite the failure of its surveillance tool to review outgoing e-mails, Commonwealth did surveil incoming e-mails that were received by its RRs, including e-mails sent in reply to its RRs' outgoing e-mails; outgoing e-mails that were sent to or carbon-copied to Commonwealth employees or other Commonwealth RRs; and certain outgoing e-mails in connection with the firm's branch audits. Commonwealth self-reported these issues to FINRA in March 2012; undertook an internal review of its supervisory policies, procedures, and systems relating to these issues; and subjected e-mails that had not been reviewed to review. Without admitting or denying the findings, Commonwealth accepted and consented to a censure and a \$250,000 fine.

In November 2008, an intruder obtained the login credentials of one Commonwealth RR through the use of a computer virus and was able to access a list of the RR's Commonwealth customer accounts. The intruder then entered unauthorized purchase orders for the stock of one publicly traded company in eight accounts. Within 10 minutes of placing the trades, the activity was detected by Commonwealth's clearing broker/dealer and the intruder was blocked from further trading. Commonwealth immediately cancelled the trades, absorbed the monetary losses, contacted the SEC, and put corrective safeguards in place, including mandating the use of current antivirus software by all its RRs. Commonwealth, without admitting or denying the allegations, consented to an SEC administrative order finding it failed to comply with Rule 30(a) of Regulation S-P. On September 29, 2009, the SEC accepted Commonwealth's offer of settlement and entered an administrative order. Without admitting or denying the findings, Commonwealth consented to a cease and desist, a censure, and a civil money penalty of \$100,000 for violating Rule 30(a) of Regulation S-P.

FINRA alleged, during the time period from April 1 to June 30, 2008, that Commonwealth Equity Services, LLP ("Commonwealth"), failed to report to the trade reporting and compliance

engine (“TRACE”) 234 transactions in TRACE-eligible securities within 15 minutes of time of execution and that the firm’s supervisory system did not provide for supervision reasonably designed to achieve compliance with applicable securities laws, regulations, and FINRA rules concerning TRACE rules. On November 24, 2009, FINRA’s NAC review committee accepted Commonwealth’s letter of acceptance, waiver, and consent. Without admitting or denying the findings, Commonwealth consented to a censure, a \$15,000 fine, and an undertaking to revise the firm’s written supervisory procedures regarding TRACE rules.

### **Other Financial Industry Activities and Affiliations**

**A. Commonwealth, the Broker/Dealer.** Commonwealth is a dual registrant, which means it is registered as an investment adviser and a broker/dealer. Depending upon the securities registrations held by each individual advisor, Commonwealth’s advisors offer a variety of securities and investments to their clients, including, but not limited to, mutual funds, Section 529 college savings plans, variable annuities, individual stocks and bonds, options, LPs, unit investment trusts, REITs, alternative investments, and a variety of other securities and insurance products approved for sale by Commonwealth. Commonwealth and its principal executive officers devote approximately 50% of their time to securities brokerage activities and 50% to investment advisory activities. Commonwealth has fully disclosed clearing arrangements with NFS and Pershing.

**B. Commonwealth, an Introducing Broker.** Commonwealth is a member of the National Futures Association, which is the self-regulatory organization for the U.S. futures industry. Commonwealth offers clients access to certain managed futures products.

**C. Commonwealth-Related Companies and Material Conflicts of Interest.** In addition to its registration as an investment adviser, Commonwealth is registered as a broker/dealer under the same name of Commonwealth Financial Network. Commonwealth has a related company that is licensed as an insurance agency under the name of CES Insurance Agency. Almost all of Commonwealth’s advisors are registered with Commonwealth’s broker/dealer as RRs, and many are licensed insurance agents of CES Insurance Agency.

As part of the investment advisory programs offered to clients, Commonwealth provides brokerage execution services to Commonwealth advisory clients participating in any of Commonwealth’s PPS managed account programs. Commonwealth and its advisors make securities recommendations to clients (or, in the case of discretionary services, make investment decisions for clients) regarding Commonwealth’s investment advisory programs. Where permitted by law, Commonwealth and/or your advisor may receive transaction-based commissions, mutual fund 12b-1 fees, distributor fees, service fees, due diligence fees, marketing reimbursements, revenue sharing, or other payments relating to your investment in or otherwise supporting Commonwealth’s or your advisor’s activities regarding the securities and insurance products recommended, purchased, or held within your Commonwealth advisory program account. To the extent Commonwealth is the investment adviser, sponsor, or other service provider to your investment advisory program, Commonwealth receives compensation for its services. Clients should be aware that Commonwealth’s or your advisor’s receipt of commissions, fees, payments, and other compensation present a conflict of interest because Commonwealth or your advisor has an incentive to make available or to recommend those

products or programs, or make investment decisions regarding investments, that provide such compensation to Commonwealth or your advisor.

**D. Commonwealth's Relationships with Other Investment Advisers.** Commonwealth and your advisor may serve as solicitors for or recommend clients to third-party investment advisers. Commonwealth and its advisors are compensated for referring your advisory business to these third-party investment advisers. This compensation generally takes the form of the third-party investment adviser sharing with Commonwealth and your advisor a portion of the advisory fee the third-party investment adviser charges you for providing investment management services. Commonwealth and your advisor, therefore, have a conflict of interest to refer clients to those third-party investment advisers that pay referral fees to Commonwealth or your advisor rather than to those that don't. Additionally, Commonwealth and your advisor have a conflict of interest to refer clients to those third-party investment advisers that pay higher referral fees over those that pay lower referral fees. Commonwealth performs reasonable due diligence on these third-party investment advisers on an initial and ongoing basis. Clients who are referred to these third-party investment advisers will receive a separate written disclosure document that describes, among other things, the compensation that will be paid to Commonwealth and the advisor by the third-party investment adviser, as well as any amount to be charged to the client that is in addition to the advisory fee that would otherwise be paid by the client to the third-party investment adviser in exchange for the referral.

### **Code of Ethics**

Pursuant to Rule 204A-1 under the Investment Advisers Act of 1940, as amended, Commonwealth has adopted a Code of Ethics that governs a number of conflicts of interest we have when providing our advisory services to you. Our Code of Ethics is designed to ensure that we meet our fiduciary obligations to you and to foster a culture of compliance throughout our firm.

Our Code of Ethics is comprehensive and is designed to help us detect and prevent violations of securities laws and to help ensure that we keep your interests first at all times. We distribute our Code of Ethics to each supervised person at Commonwealth at the time of his or her initial affiliation with our firm, we make sure it remains available to each supervised person for as long as he or she remains associated with our firm, and we ensure that updates to our Code of Ethics are communicated to each supervised person as changes are made.

Commonwealth's Code of Ethics sets forth certain standards of conduct and addresses conflicts of interest among Commonwealth and Commonwealth's employees, agents, advisors, and advisory clients.

Clients and prospective clients of Commonwealth may request a free copy of Commonwealth's Code of Ethics by mailing a written request to:

### **Commonwealth Financial Network**

Attn: Investment Adviser Compliance Unit  
29 Sawyer Road  
Waltham, MA 02453

Commonwealth and its advisors may purchase or sell for their own accounts securities or other investment products that are also recommended to clients, which may create a conflict of interest. Commonwealth policy prohibits “trading ahead” of clients’ transactions. When advisors are purchasing or selling securities for their own accounts, priority will be given to client transactions. Commonwealth has implemented surveillance and exception reports that are designed to identify and correct situations in which firm or advisor transactions are placed ahead of client transactions.

### **Review of Accounts**

Commonwealth advisors providing continuous and regular investment advice or investment supervisory services to clients will review client portfolios and communicate with clients at least annually and on a quarterly or other basis, as agreed upon by the client, for conformity with the respective portfolio selection’s investment strategies, client’s specific investment objectives, changes in the client’s financial condition, any reasonable restrictions imposed by the client as to specific assets or types of assets to be included or excluded from client portfolios.

### **Client Referrals and Other Compensation**

**A. Commonwealth as Solicitor.** Commonwealth and your advisor may serve as solicitors for a variety of third-party investment advisers with respect to some or all of your assets. In such cases, Commonwealth and your advisor are compensated by these third-party investment advisers for referring your advisory business to them. This compensation generally takes the form of the third-party investment adviser sharing with Commonwealth and the advisor a portion of the advisory fee the third-party investment adviser charges you. Commonwealth and your advisor, therefore, have a conflict of interest to refer your advisory business to those third-party investment advisers that pay referral fees to Commonwealth, or to those that pay higher referral fees to Commonwealth.

Commonwealth and/or your Commonwealth advisor may also receive training and educational support, marketing support, enhanced service, invitations to attend conferences or meetings, or some other economic benefit in addition to its receipt of the referral fee discussed above from a third-party investment adviser to whom we have referred your advisory business. This support or other economic benefit will be paid from the third-party investment adviser’s own funds and not from client funds. Commonwealth and your advisor, however, have a conflict of interest to favor referring your advisory business to those third-party investment advisers that provide such support or other economic benefit over those advisers that don’t provide such support or other benefits.

**B. Commonwealth’s Use of Solicitors.** The Commonwealth Alliance Program (“CAP”) is a referral program designed to compensate outside professionals or firms, such as attorneys, accountants, or other broker/dealers and investment advisers, for referring your advisory business to Commonwealth and your advisor. These professionals or firms are known as “solicitors.” If your advisory account is referred by a solicitor to Commonwealth or your advisor, Commonwealth and your advisor will pay a portion of the advisory fee you pay us to the solicitor, typically for as long as you maintain an advisory relationship with us, to compensate the solicitor for the referral. Commonwealth will not charge a client that is referred to

Commonwealth by a solicitor any amount for the cost of obtaining the client that is in addition to the fee normally charged by Commonwealth for its investment advisory services. Such solicitation arrangements are disclosed to clients at the time of the solicitation via execution of a Solicitor Disclosure Statement or similar document that outlines the nature and amount of the compensation we pay to the solicitor and whether or not the solicitor is affiliated with or related to Commonwealth. Solicitors are required to provide prospective clients with a current copy of Commonwealth's Form ADV Part 2 not later than the date that the client enters into an advisory relationship with Commonwealth and the advisor.

**Financial Information**

Some Commonwealth advisors who provide Wealth Management Consulting or Retirement Plan Consulting services to clients may require prepayment of more than \$1,200 in fees six (6) months or more in advance. Commonwealth also maintains custody of certain client assets and in certain instances, as defined in SEC Rule 206(4)-2. Additionally, pursuant to the trading authorization granted by Commonwealth managed account clients to Commonwealth and their advisor, Commonwealth has discretionary trading authority over the funds and securities of clients.

Commonwealth has no financial commitment that would impair its ability to meet its contractual and fiduciary commitments to clients, nor has Commonwealth been the subject of a bankruptcy proceeding.