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## **FORM ADV – PART 2A**

January 1, 2013

This Brochure provides information about the qualifications and business practices of Commonwealth Financial Network® (“Commonwealth”). If you have any questions about the contents of this Brochure, please contact us at 781.736.0700 or e-mail ***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***.



## **MATERIAL CHANGES**

The following is a summary of the material changes made to this Brochure since the annual update on March 31, 2012:

- Commonwealth has updated the Advisory Business section to reflect the following:
  - We have added the Loring Ward Model Strategist program to the Preferred Portfolio Services® (“PPS”) Direct Mutual Fund/ETF program.

You may request a copy of our current Brochure at any time, without charge, by calling us at 781.736.0700 or e-mailing us at ***FormADVPart2@commonwealth.com***.

Additional information about Commonwealth is also 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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## ADVISORY BUSINESS

### A. About Us

Joseph 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 1,600 advisors associated with its broker/dealer. Of those 1,600 advisors, more than 1,300 are also registered with Commonwealth's Registered Investment Adviser as investment adviser representatives.

The principal owners of Commonwealth (each owning 25% or more of the firm) are Joseph S. Deitch, Chairman of Commonwealth; The Estate of Robbie S. Lacritz, Joseph S. Deitch, Executor; and The Matthew Fletcher Deitch 2010 Family Gift Trust, Joseph S. Deitch, Trustee.

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 operations, trading, technology, and compliance support, guidance, and oversight for both the advisors themselves and their clients. 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 only those products and services that they believe will help their clients meet their financial goals.

### B. Description of Services Available

Commonwealth's suite of investment advisory services is known collectively as Advisor's Choice. Advisor's Choice is designed to accommodate a wide range of client investment philosophies and objectives. Through the Advisor's Choice program, 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; and variable insurance products, as well as a wide range of other products and services, including a variety of asset allocation services. Commonwealth advisors may also offer advice related to direct participation programs, private placements, and other alternative investments, including, but not limited to, alternative energy programs, research and development programs, leasing programs, real estate, and pooled commodities futures programs.

Advisor's Choice consists of advisory services programs offered through Commonwealth's suite of Preferred Portfolio Services® programs ("PPS Program"), consulting services, and advisory services programs available through unaffiliated third-party asset manager ("TPAM") programs.

Commonwealth is the sponsor of all of the following PPS programs:

- **PPS Custom:** The PPS Custom program enables the 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"), unit investment trusts, and derivatives. The advisor typically acts as portfolio manager, with full investment discretion, although clients may also select a nondiscretionary PPS Custom account.
- **PPS Select:** The PPS Select program offers a variety of model portfolios with varying levels of risk, ranging from primarily fixed income portfolios (e.g., bonds) to equity portfolios (e.g., stocks). The various models are created and managed by Commonwealth's Asset Management team. The client's advisor will help the client determine which PPS Select model(s) is best suited for the client based on the client's risk profile, investment objectives, and preferences and will leave the actual investment decisions to Commonwealth's Asset Management team. PPS Select offers mutual fund and ETF 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. They are not managed by Commonwealth; rather, they 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 fixed income securities. There are three types of PPS Direct program accounts, which are broadly described as:
  - **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 either at the time of service, in advance of service, or after service has been rendered ("in arrears"). If fees are being charged on an hourly basis, they may not exceed \$500 per hour. If fees are paid six (6) months or more in advance *and* they exceed \$1,200, the client must receive a copy of Commonwealth's most current fiscal year-end balance sheet. As a matter of policy, Commonwealth includes a copy of its balance sheet along with this Brochure.
- **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. The maximum annual account consulting fee, when stated as a percentage of assets, is 2% and is negotiable. 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 offers advisors' clients access to a variety of model portfolios with varying levels of risk from which they may choose. TPAM program accounts are not managed by Commonwealth; rather, they 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, mutual funds, and derivatives. Account minimums for unaffiliated TPAM program accounts generally range between \$25,000 and \$50,000. Commonwealth is not the sponsor of these TPAM programs.

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

- **Solicitor:** When acting as a solicitor for the TPAM program, neither Commonwealth nor your Commonwealth advisor provides 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 you pay to the TPAM 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.

- **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 and/or expected size or number of trades for the account, 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 Commonwealth advisors with their attorney and accountant. Clients should also inform their advisor promptly of any changes in their financial situation, investment goals, or objectives. Failure to notify the advisor of any such 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 on 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 Direct, Russell, Loring Ward, PPS Select, and Private Wealth Management programs are considered "wrap fee" programs, in which the client pays a single fee for trade execution and portfolio management services. Wrap fee programs differ from other programs in that the fee structure for wrap programs is all-inclusive, whereas non-wrap programs include trade execution costs that are in addition to the advisory fees. For example, Commonwealth's PPS Custom program is not considered a wrap fee program because clients pay transaction costs that are in addition to the asset management fee and are generally borne by the client.

All wrap fee programs available through Commonwealth are managed by a third-party portfolio manager, investment adviser, or Commonwealth's own Asset Management team, rather than by your Commonwealth advisor. In the case of wrap fee programs, such accounts are managed in accordance with the investment methodology and philosophy used by the respective third-party portfolio manager, investment adviser, or Commonwealth's own Asset Management team. On the other hand, Commonwealth's PPS Custom program is 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 program to compensate for Commonwealth's portfolio management services provided by the Commonwealth Asset Management team.

For more information relating to Commonwealth's wrap fee programs, please refer to Appendix 1 of this document, titled the "Wrap Fee Program Brochure."

### **E. Assets Under Management**

As of December 31, 2011, Commonwealth has \$27,737,959,102.35 assets under management, of which \$27,073,358,962.58 is managed on a discretionary basis and \$664,600,139.77 is 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 among the various advisory programs and services offered by Commonwealth and your advisor, we may have a financial incentive to recommend a particular program or service over other programs or services.

Just as many Commonwealth advisors offer management fee discounts to their larger clients, Commonwealth offers its advisors administrative fee discounts based on their total PPS Program assets under management. PPS administrative fees are deducted from the annual total account fee charged to the client and cover various costs associated with the PPS Program. As advisors grow their fee-based business within Commonwealth's suite of PPS programs, Commonwealth's economies of scale are shared with advisors by reducing the percentage amount of PPS Program administrative fees that would be charged to advisors. Commonwealth's "Growing Advisor Program" was established for advisors who have accumulated assets in any of Commonwealth's PPS fee-based programs. Advisors are offered discounts on the PPS administrative fee when they reach specified asset levels. Additionally, advisors with PPS assets under management 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%. These discounts in administrative fees and higher payouts to advisors who have at least \$25 million in PPS assets under management provide a financial incentive for advisors to recommend one of Commonwealth's PPS programs over other third-party asset management programs.

## **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 pay Commonwealth and their advisor for those services with an ongoing asset management fee based on a percentage of assets under management ("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. 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 or to the respective client agreement 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 returned 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 “tiered” or “blended” schedules, and “breakpoint” schedules.

**Tiered or Blended Schedule**

A tiered or 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 quarterly account fee for that period.

For example, assume the following tiered or blended fee schedule:

Account Value	Fee
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, 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:

$\$375 + \$306.25 + \$505 = \$1,186.25$  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 quarterly account fee for that period.

For example, assume the following tiered or blended fee schedule:

Account Value	Fee
\$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, 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 Account:

Account Value	Maximum Annual Fee
\$50,000–\$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. Fees are based on account value and account type and are negotiable, but may not exceed 3%. 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 assets under management 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.

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 per hour. 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. 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 pay fees quarterly, in advance, or in arrears, based on the specific program selected by the client. 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

When Commonwealth effects securities transactions for the 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 standard 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>	<b>Maximum Charges</b>
Treasuries, CDs, and Federal Agencies	\$30
Corporates and Municipals	\$30
UITs	\$20
CMOs	\$30
<b>Options</b>	\$20 + \$1.25 per contract
<b>Mutual Funds</b>	
Buy	\$20
Sell	\$20
Exchange	\$20

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.

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

- Mutual fund or money market 12b-1 fees 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 the account;
- Other transaction charges and service fees;
- IRA and qualified retirement plan fees; and
- Other charges that may be required by law.

These fees and transaction charges present a potential conflict of interest because your Commonwealth advisor may have a greater incentive to recommend (or make investment decisions regarding) investments that provide additional compensation to Commonwealth and your advisor. Further information regarding fees and charges assessed by a mutual fund is available in the appropriate mutual fund prospectus.

#### Revenue Sharing Arrangements (last updated 01/06/2012)

##### Mutual Funds

Through our national network of advisors, Commonwealth offers a broad selection of more than 13,000 mutual funds. Companies for some of the mutual funds we sell participate in activities that are designed to help facilitate the distribution of their products by making our advisors, we believe, more knowledgeable about those companies' funds, such as marketing activities and educational programs (including, but not limited to, attendance by fund representatives at Commonwealth conferences, one-on-one marketing, and due diligence presentations to our advisors).

In return for assistance in facilitating the activities described above, Commonwealth receives additional compensation, called *revenue sharing*, from these funds. These revenue sharing payments are in addition to

commissions, annual service fees (known as 12b-1 fees), and other fees and expenses disclosed in a fund’s prospectus fee table. These revenue sharing payments, however, are paid out of the investment adviser’s or other fund affiliate’s assets—not from the fund’s assets—and, therefore, would not appear as an item in a fund’s expense table. No portion of these revenue sharing payments to Commonwealth is made by means of brokerage commissions generated by the fund.

It is important to understand that none of the revenue sharing payments received by Commonwealth is paid or directed to any advisor who sells these funds. Commonwealth advisors do not receive a greater or lesser commission for sales of mutual funds for which Commonwealth receives revenue sharing payments. Because Commonwealth’s advisors receive no direct increase or change in compensation from selling shares of one fund over another, 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 fund’s shares over another’s. The marketing and educational activities paid for with revenue sharing, however, could lead our advisors to focus more on those funds that make revenue sharing payments to Commonwealth—as opposed to funds that do not make such payments—when recommending mutual fund investments to their clients.

Commonwealth does not maintain a “preferred” list of mutual fund families based on participation in revenue sharing that it promotes (exclusively on our website or through our advisors), but offers a selection of many funds.

The mutual fund families that participate in the revenue sharing programs described above are:

AllianceBernstein	Hartford	Nuveen Investments
Allianz Global Investors	ING	Oppenheimer
American Funds	Invesco	Pioneer
BlackRock	Ivy	PIMCO
Calamos Investments	John Hancock	Principal
Columbia Funds	J.P. Morgan	Prudential Investments
DWS Investments	Legg Mason	Putnam
Eaton Vance	Lord Abbett	RS Funds
Federated	MainStay	Sentinel Funds
Fidelity Advisor	MFS	Thornburg
Franklin Templeton	Natixis Global	

While the revenue sharing arrangements with each fund family may vary, each fund family may pay either a) up to 30 basis points (0.30%) of the gross amount of each sale; b) up to 15 basis points (0.15%) of the gross amount of each sale, plus up to 6 basis points (0.06%) annually of the assets held at the fund family; or c) up to 10 basis points (0.10%) annually of the assets held in the fund family. For example, on a \$10,000 transaction with a participating fund family, Commonwealth would receive either a one-time \$30 payment; a one-time \$15 payment, plus a \$6 annual payment for the period during which the assets remain at that fund family; or a \$10 annual payment for the period during which the assets remain at that fund family.

Participating fund families may also be subject to certain minimum payments each year in conjunction with the program if minimum amounts of sales or assets are not met, and they may also make additional payments to Commonwealth for attendance at various educational meetings hosted by Commonwealth throughout the year.

Some of the mutual funds we sell may also offset certain transaction costs that would otherwise be borne by an advisor for those clients who choose to custody their assets with our clearing firm, National Financial Services LLC (“NFS”)—a wholly owned subsidiary of Fidelity Investments. These transaction charges are usually \$15 per transaction in connection with each purchase of a mutual fund by a client, depending on the account and/or transaction type. We believe that this offset does not compromise the advice your advisor gives you.

Additionally, NFS offers a “No Transaction Fee” program with more than 1,200 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.

**Variable Insurance Programs**

Commonwealth also offers hundreds of variable insurance options and assists insurance sponsors with conducting marketing activities and educational programs designed to increase the distribution of these products. Commonwealth also receives revenue sharing payments from certain insurance sponsors. None of these additional payments, however, is paid or directed to any advisor who sells these products. In addition, Commonwealth advisors do not receive a greater or lesser commission for sales of variable insurance products from which Commonwealth receives revenue sharing payments.

Because Commonwealth’s advisors receive no direct increase or change in compensation from selling one product over another, 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 product over another. The marketing and educational activities paid for with revenue sharing, however, could lead our advisors to focus more on those insurance products that make revenue sharing payments to Commonwealth—as opposed to insurance sponsors that do not make such payments—when recommending insurance products to their clients.

While the revenue sharing arrangements with each insurance company may vary, each insurance company may pay either a) up to 30 basis points (0.30%) of the gross amount of each sale; or b) up to 10 basis points (0.10%) of the gross amount of each sale, plus up to 5 basis points (0.05%) annually of the assets held at the insurance company. For example, on a \$10,000 transaction with a participating insurance company, Commonwealth would receive a one-time \$30 payment, or a one-time \$10 payment, plus a \$5 annual payment for the period during which the assets remain at that insurance company.

Participating insurance companies may also be subject to certain minimum payments each year in conjunction with the program if minimum amounts of sales or assets are not met, and they may also make additional payments to Commonwealth for attendance at various educational meetings hosted by Commonwealth throughout the year.

The following variable insurance companies participate in this revenue sharing program:

Allianz Life	Lincoln National
AXA Distributors	MetLife Investors
The Hartford/PLANCO	Nationwide
Jackson National Life	Pacific Life
John Hancock	Prudential

**Variable Universal Life, Universal Life, and Long-Term Care Insurance Programs**

Commonwealth also offers variable universal life (“VUL”), universal life (“UL”), and long-term care (“LTC”) insurance products and assists insurance sponsors with conducting marketing activities and educational programs designed to increase the distribution of these products. Commonwealth, in addition to receiving commissions on the sale of these insurance products, receives payments from certain insurance sponsors for marketing, training, and distribution support. None of these additional payments, however, is paid or directed to any advisor/insurance agent who sells these products. In addition, Commonwealth advisors/insurance agents do not receive a greater or lesser commission for sales of these insurance products from which Commonwealth receives revenue sharing payments.

Because Commonwealth’s advisors/insurance agents receive no direct increase or change in compensation from selling one product over another, we do not believe that they are subject to a conflict of interest based on the amount of compensation each advisor/agent receives when recommending one life insurance product over another. The marketing, educational, and distribution activities paid for with revenue sharing, however, could lead our advisors/insurance agents to focus more on those insurance products that make revenue sharing payments to Commonwealth—as opposed to insurance sponsors that do not make such payments—when recommending insurance products to their clients.

While the arrangements with each insurance company may vary, each VUL and UL insurance company may pay up to 20% on target premiums, and each LTC carrier may pay up to 6.5% of the gross amount of each sale based on annual production.

The following insurance companies participate in this revenue sharing program:

Genworth – LTC	MetLife – VUL
Hartford Life – UL and VUL	Nationwide – VUL
John Hancock – LTC and VUL	Pacific Life – UL and VUL
Lincoln Benefit Life – UL and VUL	Penn Mutual – UL and VUL
Lincoln National – UL and VUL	Protective Life – UL

**529 College Saving Plans**

Commonwealth also offers several 529 college savings plans to our brokerage customers through their advisors. 529 plan assets are included in the amount of total mutual fund assets upon which revenue sharing is paid, but are not separately accounted for by Commonwealth and the product sponsors. As with the mutual funds, none of these additional payments, however, is paid or directed to any advisor who sells these plans. In addition, Commonwealth advisors do not receive a greater or lesser commission for sales of 529 plans from which Commonwealth receives revenue sharing payments.

**Nonpublicly Traded Products**

Commonwealth, through its advisors, also offers several nonpublicly traded products, including nonlisted real estate investment trusts (“REITs”), limited partnerships (“LPs”), and 1031 exchange programs; hedge funds and fund of funds; managed futures; tax credit programs; oil and gas programs; venture capital funds; and private equity funds. Consistent with prudent product approval practices, Commonwealth conducts or causes to be conducted a due diligence analysis of these products prior to making them available to the public through its advisors. In addition to receiving commissions on the sale of these products, Commonwealth receives due diligence and/or marketing allowance payments from certain sponsors.

While the arrangements with each sponsor may vary, each product sponsor may pay a due diligence or marketing allowance fee of either a) up to 70 basis points (0.70%) annually on assets held at the sponsor; or b) up to 200 basis points (2.00%) on the gross amount of each sale, depending on the product. None of these additional payments, however, is paid or directed to any advisor who sells these products. In addition, Commonwealth advisors do not receive a greater or lesser commission for sales of these products from which Commonwealth receives revenue sharing payments. Because Commonwealth’s advisors receive no direct increase or change in compensation from selling one product over another, 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 nonpublicly traded product over another.

**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 assets under management directly from third-party asset manager 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.

**Payments to Commonwealth Advisors.** In addition to receiving asset-based fees in their capacity as an investment adviser or solicitor, Commonwealth advisors receive reimbursements or marketing allowances for marketing expenses and costs incurred by the advisor.

**Payments to Commonwealth Only.** 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 15 basis points (0.15%) 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 directed to any Commonwealth advisor.

In addition, Commonwealth advisors do not receive a greater or lesser asset-based fee for providing investment advice or referrals of these Program Sponsors' services as a result of Commonwealth's receipt of these additional payments. Because Commonwealth's advisors receive no direct or indirect differential compensation for selecting one advisory program over another, we do not believe Commonwealth advisors are subject to a conflict of interest when selecting a particular asset management program that makes additional payments to Commonwealth over a program that does not.

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. Such arrangements will have no impact on the fees being charged to clients by Commonwealth, the advisor, or the Program Sponsor. Depending upon the specific arrangement, payments may be based upon an annual, flat, or level fee arrangement. Program Sponsors may also opt to pay Commonwealth a quarterly fee based upon deposits or assets under management and/or some combination thereof on an annual basis based upon certain allowable assets.

### **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.

### **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 returned 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, paid in advance, is the most common method of payment for the client and compensation to Commonwealth and advisor. It is the method in use by Commonwealth's most popular advisory offerings, such as PPS Custom, PPS Select, PPS Direct, and unaffiliated TPAM programs.

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. Wealth Management Consulting services may be calculated on an hourly, flat, or fixed fee for consulting and/or financial planning services and 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; indirectly, clients will also pay the management and other fees

charged by the mutual fund or in insurance products themselves. Clients may be able to invest directly in the mutual fund's shares or in the 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 in some products.

Commonwealth and your advisor may receive service fees and other compensation from investment product sponsors when they make recommendations or investment decisions for you. These fees and compensation include, but are not 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 realloances, or other transaction or service fees. Commonwealth and your advisor may receive a portion of these fees. This additional compensation presents a potential conflict of interest because Commonwealth and your advisor may have a greater incentive to recommend (or make investment decisions regarding) investments for your account that provide such additional compensation to Commonwealth or your advisor. Further information regarding fees and charges assessed to you by investment products you purchase is available in the appropriate prospectus. Notwithstanding the foregoing, Commonwealth will reduce a client's PPS retirement account management fee, or will otherwise credit a client's PPS managed retirement account, an amount that is proportionate to the mutual fund 12b-1 fees normally payable to Commonwealth and your advisor from the mutual fund assets held in your PPS managed retirement accounts.

**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 potential 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 potential conflict of interest of advisors who receive 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.

## **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).

## **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 program start as low as \$25,000.
- 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 TPAM program sponsors may waive the account minimum requirements for their respective programs in their sole discretion.

## 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. Risk of Loss

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.

## 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.

In November 2008, an intruder obtained the login credentials of one Commonwealth registered representative ("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.

In 2004, a former RR confessed to misappropriating funds from clients of his independent Registered Investment Adviser, which was not affiliated with or controlled by Commonwealth. The RR was associated with Commonwealth from 1991 until he left the firm in 2001. Commonwealth, without admitting or denying the allegations, consented to an SEC administrative order finding that, in its capacity as a broker/dealer, it failed to reasonably supervise the RR in that it had not established reasonable policies and procedures for responding to red flags relating to the RR's outside business activities and for reviewing his incoming mail. On September 6, 2007, the SEC accepted Commonwealth's offer of settlement and entered an administrative order. Without admitting or denying the findings, Commonwealth consented to a censure, disgorgement of \$1, and a civil money penalty of \$250,000 for failing to supervise a former RR.

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.

On or about August 26, 2005, the National Association of Securities Dealers ("NASD") found that Commonwealth violated NASD Conduct Rules 2830(k) and 2110 by maintaining a revenue sharing program between January 2001 and December 2003, pursuant to which, in return for a fee, participating mutual fund complexes received preferential treatment in the marketing of funds. Additionally, Commonwealth was found to have violated Section 17(a) of the Securities Exchange Act of 1934 and NASD Conduct Rule 3110 by failing to retain e-mails for the required time period.

## **OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

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

As mentioned in the “About Us” section on page 7, Commonwealth is a dual registrant, which means it is both a Registered 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 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. Your advisor is registered with Commonwealth’s broker/dealer as an RR and may also be a licensed insurance agent 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 your advisor may receive mutual fund 12b-1 fees, service fees, due diligence fees, marketing reimbursements, or other payments relating to a client’s investment in or otherwise supporting Commonwealth’s or your advisor’s activities regarding the securities and insurance products recommended, purchased, or held in your investment advisory program. 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 these fees, payments, and other compensation may present a potential conflict of interest because Commonwealth or your advisor may have a greater incentive to recommend those investment advisory products or programs or make investment decisions regarding investments that provide such additional compensation to Commonwealth or your advisor.

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

Commonwealth and your advisor may serve as solicitors for 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 may, 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 may 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.

## **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 potential 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 potential 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

Generally, Commonwealth does not buy or sell securities for its own account that it recommends to (or purchases or sells for) clients. Commonwealth's advisors, however, 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 advisors from "trading ahead" of their clients' transactions. When purchasing or selling securities for the personal accounts of advisors and their clients, priority must be given to the advisor's client transactions. Commonwealth has implemented surveillance and exception reports that are designed to identify and correct situations in which the personal transactions of advisors are placed ahead of the advisors' clients.

## **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. All or substantially all of Commonwealth's PPS advisory clients must select Commonwealth as the broker/dealer of record for their PPS managed accounts. Commonwealth maintains a primary clearing relationship for the execution of client transactions with NFS. Commonwealth maintains a secondary clearing relationship for the execution of client transactions with Pershing.

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. While Commonwealth is able to negotiate competitive pricing from NFS and Pershing that it believes is beneficial to its clients, Commonwealth does receive an economic benefit from using itself as the broker/dealer for its PPS Program accounts rather than an unaffiliated broker/dealer. For example, Commonwealth adds its own costs to the transaction charges applied to PPS client accounts by NFS and Pershing. 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 may create 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.

## **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' 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 each other 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.

## **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 potential 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 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 introduces its client transactions for execution, clearance, and settlement.

NFS and Pershing also provide custody of the client brokerage account assets under the same clearing arrangement. All, or substantially all, of Commonwealth's PPS Program clients establish a securities brokerage account with Commonwealth and execute securities transactions for PPS Program portfolios through NFS. For utilizing NFS' and Pershing's securities transaction services, Commonwealth may be compensated by NFS, Pershing, or other broker/dealers with which Commonwealth's clients' securities transactions are executed.

This industry practice is generally known as "payment for order flow," and does not affect the quality of execution services, or Commonwealth's, NFS', or Pershing's duty to obtain best execution for clients. 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.

**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:

Report	Review Frequency	Nature of Report
State Licensing Report	Daily	To identify transactions for which the advisor or OSJ manager is not properly licensed in a state prior to transacting business
Large Withdrawal Report	Daily	To verify client authorization and identify patterns of suspicious large withdrawal activity
Journal Report	Daily	To verify client authorization and identify patterns of suspicious money movement
Personal Security Transactions	Weekly	To identify potential violations of Commonwealth’s Code of Ethics
Option Report	Monthly	To identify accounts with high percentages of assets invested in options
PPS Inactivity Report	Quarterly	To identify PPS accounts with no trading activity
PPS Out of Balance Report	Quarterly	To identify accounts out of balance from stated objectives

**CLIENT REFERRALS AND OTHER COMPENSATION**

**A. Commonwealth as Solicitor**

Commonwealth and your advisor serve as solicitors for a variety of third-party investment advisers. 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 may, 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 or your Commonwealth advisor may also receive training and educational support, marketing support, enhanced service, 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, may 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." 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. 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.

## **CUSTODY**

### **A. Custody Services**

If the client establishes a brokerage account with Commonwealth in its broker/dealer capacity, Program account custody services are provided by Commonwealth's clearing broker/dealer, NFS or Pershing. Some Commonwealth managed account assets, such as managed variable annuities, are held at the custodian for the respective product, such as an insurance company. All or substantially all of Commonwealth's PPS Program accounts use Commonwealth as the broker/dealer of record. 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 an insurance company. Clients should carefully review the statements they receive from their account custodians.

### **B. Performance Reporting**

Commonwealth clients may also receive statements for their Commonwealth managed accounts from Commonwealth or their advisor that are in addition to those statements received from the account custodian. Commonwealth urges you to compare the account statements you receive from your account custodian with the statements you receive from us or your advisor. While account holdings and asset valuations should generally match, for purposes of calculating performance and account valuations on your PPS Program account, Commonwealth performance statement month-end market values sometimes differ from NFS' or Pershing's 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 vs. trade date valuations.

If you believe there are material discrepancies between your custodial statement and the statements you receive from Commonwealth or your advisor, please contact Commonwealth directly at 800.251.0080.

## **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.

## **VOTING CLIENT SECURITIES (PROXY VOTING)**

### **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 advisor 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.

## **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®

## A. Statements of Financial Condition

December 31, 2011, and 2010

<b>Assets</b>	<b>2011</b>	<b>2010</b>
Cash and cash equivalents	\$ 48,669,151	\$ 41,799,072
Restricted cash and cash equivalents	3,480,762	3,562,895
Receivables:		
Brokers and clearing organizations	22,084,200	20,905,882
Employees and registered representatives	19,561,504	15,134,577
Other	60,936	368,110
Securities owned, at fair value	23,194,350	24,802,074
Property and equipment, net	20,961,890	21,988,905
Deferred tax assets	677,215	625,163
Other assets	2,546,257	1,426,254
Deposits with clearing organizations	50,000	50,000
<b>Total Assets</b>	<b>\$ 141,286,266</b>	<b>\$ 130,662,932</b>

## Liabilities and Shareholders' Equity

Accrued liabilities	\$ 8,626,303	\$ 12,197,026
Accrued deferred compensation	34,089,185	30,350,570
Payables:		
Brokers and clearing organizations	12,915,971	12,298,805
Trade and reimbursements	8,083,075	5,390,019
Dividends payable	5,893,534	4,627,166
Deferred revenue	1,333,333	625,002
Subordinated borrowings – related parties	61,905,000	57,905,000
Other liabilities	598,063	282,080
Due to affiliates	227,916	277,010
<b>Total Liabilities</b>	<b>\$ 133,672,380</b>	<b>\$ 123,952,678</b>

Commitments and contingencies (Note 10)

Shareholders' equity:

3,000,000 shares authorized and 2,400,000 shares issued and outstanding at December 31, 2011 and 2010	\$ 3,254,564	\$ 3,254,564
Retained earnings	4,359,322	3,455,690
<b>Total Shareholders' Equity</b>	<b>\$ 7,613,886</b>	<b>\$ 6,710,254</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 141,286,266</b>	<b>\$ 130,662,932</b>







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**FORM ADV PART 2A – Appendix 1:**  
***Wrap Fee Program Brochure***

January 1, 2013

This wrap fee program brochure provides information about the qualifications and business practices of Commonwealth Financial Network® (“Commonwealth”). If you have any questions about the contents of this Brochure, please contact us at 781.736.0700 or e-mail ***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 also is available on the SEC’s website at ***[www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)***.



## **MATERIAL CHANGES**

The following is a summary of the material changes made to this Brochure since the annual update on March 31, 2012:

- Commonwealth has updated the Services, Fees, and Compensation section to reflect the following:
  - We have added the Loring Ward Model Strategist program to the Preferred Portfolio Services® (“PPS”) Direct Mutual Fund/ETF program.
- Commonwealth has updated the Account Requirements and Types of Clients section to reflect the account minimum of \$50,000 for the PPS Loring Ward Model Strategist program.

You may request a copy of our current Brochure at any time, without charge, by calling us at 781.736.0700 or e-mailing us at ***FormADVPart2@commonwealth.com***.

Additional information about Commonwealth is also 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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## SERVICES, FEES, AND COMPENSATION

### PPS Direct Mutual Fund/ETF Services, Fees, and Compensation

The Preferred Portfolio Services® (“PPS”) Direct Mutual Fund/ETF program offers clients an asset management account in which Commonwealth, in its capacity as an investment adviser, oversees the management of the account by a third-party asset manager (“TPAM”), which will have the authority to direct and manage the assets in the client’s account.

The TPAMs provide model portfolios that they have developed, based on their market and product research and due diligence, for use by Commonwealth’s PPS Direct clients. Commonwealth advisors assist their clients in choosing a model portfolio developed by the TPAM that the advisor believes is consistent with the client’s risk tolerance and investment objectives. This model portfolio may include mutual fund shares (including no-load mutual funds and load-waived mutual funds), exchange-traded funds (“ETFs”), and variable annuities.

Periodically, the TPAMs may rebalance or reallocate the securities within their model portfolios, as they deem necessary or appropriate. Once Commonwealth has been notified of a change to a model, Commonwealth or the TPAM will effect transactions in the client’s account on a discretionary basis in order to rebalance or reallocate the client’s account in a manner that is consistent with the model portfolio selected by the client. At any given time, the client’s account may not reflect the exact model portfolio due to market fluctuations or specific client needs or circumstances. The client will be responsible for all tax consequences resulting from any rebalancing or reallocation of the account.

Commonwealth’s advisors will obtain the necessary financial data from the client in order to assist the client in determining the suitability of the PPS Direct Mutual Fund/ETF program for the client and will help the client select the appropriate TPAM and model portfolio. The client and the advisor will meet periodically to review the client’s financial situation, investment objectives, and current portfolio. In addition, the advisor will be available to consult with the client concerning the PPS Direct Mutual Fund/ETF account at the client’s reasonable request.

During any month in which there is activity in the client’s account, but no less frequently than quarterly, the client will receive a monthly account statement from the account custodian, National Financial Services LLC (“NFS”), a Fidelity Investments® company, showing account transaction activity, as well as positions held in the account at period-end. The client may also receive a detailed quarterly performance report describing all activity in the account, along with the account performance information.

With the exception of Capital Allocation and Management (“CAM”) and Meridian Asset Management (“Meridian”), the total account fee for third-party asset managers includes the following:

- Subadviser fee
- Commonwealth’s advisory, clearing, custody, trading, and administrative fees

Clients who select CAM or Meridian as TPAMs may pay clearing, custody, and trading fees in addition to the total account fee, at the discretion of the advisor. In general, clients will pay \$20 for each purchase, sale, or exchange of a mutual fund, plus a \$4 confirmation fee for all transactions, except mutual fund exchanges, no-transaction-fee funds, and periodic investment/systematic withdrawal transactions. Clients should refer to Schedule A of the respective PPS Direct Mutual Fund Client Agreement and to the respective third-party asset manager’s Form ADV Part 2A or Disclosure Brochure for further information.

The total account fee is payable in advance and is computed as one-quarter of the total account fee, based on the closing balance of the account on the last business day of the previous calendar quarter. The initial quarterly fee will be prorated and the remainder of the quarters will be billed at the standard fee. Depending upon the TPAM selected, the maximum total account fee ranges from 2.25% to 3%. Fees are negotiable between the advisor and the client in any PPS Direct program.

Clients participating in the PPS Direct Mutual Fund/ETF 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 account
- Specific investments made by the client
- Managers selected
- Amount of trading effected by the TPAM
- Actual costs of such services if purchased separately

The advisory fees charged for the services provided by Commonwealth, including research, supplemental advisory, and client-related services offered through the PPS Direct Mutual Fund/ETF program, may exceed those of other similar programs.

In addition to the fees noted above, clients may incur certain charges imposed by third parties other than Commonwealth or the advisor in connection with investments made through the PPS Direct Mutual Fund/ETF program. These may include, but are not limited to, the following:

- Mutual fund or money market 12b-1 fees and subtransfer agent fees
- Mutual fund and money market management fees and administrative expenses
- Mutual fund transaction fees and redemption 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
- Other charges that may be required by law

Commonwealth and your advisor may receive a portion of these fees. More information may be found in the mutual fund prospectus that explains the fees and charges assessed by a specific mutual fund.

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.” 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.

#### **PPS Direct SMA/UMA and Strategist Program Services, Fees, and Compensation**

The PPS Direct SMA/UMA and Strategist program provides clients access to an investment platform that facilitates ownership of individual securities managed at the discretion of one or more money managers (“Money Managers”). Certain services in the PPS Direct SMA/UMA and Strategist program are provided by Envestnet Asset Management, Inc. (“Envestnet”). Envestnet is a Registered Investment Adviser and has been chosen by Commonwealth to provide access to a wide range of Money Managers within the Separately Managed Account program (“SMA program”), the Unified Managed Account program (“UMA program”), and the Third-Party Fund Strategist program (“Strategist program”).

Additionally, Envestnet acts as the “overlay manager” in the UMA program, which means that Envestnet may, at its discretion, place trades within client accounts based on instructions provided by the selected Money Managers. Clients who participate in the PPS Direct SMA/UMA and Strategist program are required to grant full discretionary investment authority to Commonwealth and Envestnet to invest, reinvest, sell,

exchange, and otherwise deal with client assets in their discretion, including, without limitation, the authority to select, allocate, and reallocate the client assets in the client's accounts to different Money Managers and to delegate discretion to the respective Money Managers. For the SMA and UMA programs, Commonwealth and Envestnet generally will only use this discretionary authorization to:

- Replace investment vehicles, including Money Managers, when it determines such a change is necessary
- Rebalance a client's account, as agreed between the client and the advisor
- Liquidate sufficient assets to pay the program fee, when necessary and advisable

Commonwealth clears its securities transactions for the PPS Direct SMA/UMA and Strategist program on a fully disclosed basis in accordance with its clearing agreement with NFS. Custody of funds and securities may be maintained by NFS or by Commonwealth.

The SMA program enables Commonwealth, as sponsor of the program, to leverage Envestnet's established relationships with Money Managers and to make the services of Money Managers available to the advisor's clients. Envestnet provides SMA program clients with the ability to access the private money management services of one or more Money Managers, either directly using a separately managed account for each Money Manager or indirectly using a single managed account traded by Envestnet based on the instructions of the relevant Money Manager. Commonwealth advisors will help their clients select one or more Money Managers for use within the SMA program. If the client chooses to utilize the SMA program, the client will establish a separate brokerage account for each Money Manager or strategy selected. A portfolio tailored for an SMA program account may consist of any combination of the following types of securities that are managed by one or more Money Managers, as chosen by the client:

- Individual equity and fixed income securities
- Mutual funds
- ETFs

The Strategist program enables Commonwealth to leverage Envestnet's established relationships with various third-party Money Managers that provide asset allocation portfolios for investments in mutual funds and ETFs. Envestnet will manage the asset allocation portfolio on a discretionary basis based on the investment recommendations of the Money Managers(s) selected by the client. If the client chooses to utilize the Strategist program, the client will establish a separate brokerage account for each strategist or strategy selected. For each Money Manager, Envestnet provides overlay management of the portfolios, whereby Envestnet performs model management, administrative, and/or trading implementation duties pursuant to the direction of the Money Manager. A portfolio tailored for a Strategist program account may consist of any combination of the following types of securities that are managed by one or more Money Managers, as chosen by the client:

- ETFs
- Mutual funds

The UMA program enables the Commonwealth advisor to construct a single portfolio by selecting specific, underlying investment vehicles within asset allocation models defined by Commonwealth. The UMA program offers clients an asset management account in which Commonwealth's advisors, in their capacity as Investment Adviser Representatives of Commonwealth, are responsible for selecting the specific, underlying investment vehicles in the appropriate model to meet their client's needs. Commonwealth's Asset Management group determines the target asset mix, and Envestnet provides overlay management with respect to the client's account.

The UMA program may be used by clients in combination with the SMA program described above. If the client selects the UMA program, the client will establish one brokerage account in which multiple Money Managers or strategies will be implemented. A portfolio tailored for a UMA program account may consist of any combination of the following types of securities that are managed by one or more Money Managers, as chosen by the client:

- Individual equity and fixed income securities
- Mutual funds
- ETFs

The PPS Direct SMA/UMA and Strategist program will be offered to interested clients by Commonwealth's advisors. Through consultation with the client, the advisor will obtain necessary financial data from the client in order to assist the client in determining the suitability of the account, and to help the client set the appropriate investment objectives and select one or more Money Managers or single portfolios of asset allocation models defined by Envestnet. Each client's account will be opened pursuant to an advisory contract in which the client will authorize Envestnet, the Money Manager, or Commonwealth to purchase and sell various products on a discretionary basis, according to the investment strategy chosen by the client. The client will have the opportunity to meet with his or her Commonwealth advisor periodically to review the assets in the account. At any time, subject to Envestnet's, the Money Manager's, or Commonwealth's judgment, specific investments will periodically be reallocated within the client's account to reestablish the targeted percentages of the assets and the appropriate investment strategy. This reallocation could be based on market conditions, specific client circumstances, or other factors that suggest reallocation may be appropriate. The client will be responsible for all tax consequences resulting from any account rebalancing or reallocation initiated by the client, Envestnet, Commonwealth, or a Money Manager.

The total account fee includes the following:

- Envestnet's fee
- Money Manager's fee
- Commonwealth's advisory, clearing, custody, and trading fees

Money Manager strategies that hold numerous positions have historically experienced high portfolio turnover or frequent rebalancing, and may carry higher custody and clearing costs. The total annual account fee will be calculated by applying the annual fee schedule for the pertinent category of program assets, as stated in the Statement of Investment Selection portion of the Envestnet Program Terms and Conditions, and is payable in advance and computed as one-quarter of the total annual account fee based on the balance of the account on the last business day of the previous calendar quarter. The initial quarterly fee will be prorated as more fully described in the Terms and Conditions between the client, Envestnet, and Commonwealth. Fees are negotiable between the advisor and the client and may not exceed 3%. Other methods of fee calculation may be possible, depending on the client's circumstances and on the account size.

Clients participating in the PPS Direct SMA/UMA and Strategist 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 account
- Specific investments made by the client
- Managers selected
- Amount of trading effected by the subadvisor or Money Manager
- Actual costs of such services if purchased separately

The advisory fees charged for the services provided by Commonwealth, including research, supplemental advisory, and client-related services offered through the PPS Direct SMA/UMA and Strategist program, may exceed those of other similar programs.

In addition to the fees noted above, clients may incur certain charges imposed by third parties other than Commonwealth or the advisor in connection with investments made through the PPS Direct SMA/UMA and Strategist program. These may include, but are not limited to, the following:

- Mutual fund or money market 12b-1 fees and subtransfer agent fees
- Mutual fund and money market management fees and administrative expenses
- Mutual fund transaction fees and redemption 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
- Other charges that may be required by law

Commonwealth and the advisor may receive a portion of these fees. More information may be found in the mutual fund prospectus that explains the fees and charges assessed by a mutual fund.

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.” 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.

#### **PPS Russell Model Strategies Program Services, Fees, and Compensation**

Commonwealth has an arrangement with Russell Funds Distributors, Inc. (“Russell”), a registered broker/dealer and the principal underwriter for the Russell Investment Company, an open-end registered investment company. Commonwealth makes the Russell Model Strategies program available to clients through a series of model strategies (“Model Strategies”) provided to Commonwealth by Russell that include varying percentages of equity and debt no-transaction-fee (“NTF”) funds with degrees of risk and potential return. Russell will monitor and make changes to the Model Strategies based on its individual investment analysis and asset allocation discipline and will communicate any changes in strategies to Commonwealth. Commonwealth will then manage the funds within the Model Strategies using one of five different Russell asset allocation strategies: Conservative, Moderate, Balanced, Growth, and Aggressive.

Based on the information provided to Commonwealth’s advisor by the client, the advisor will assist the client in determining the suitability of the Russell program and the available Model Strategies in establishing an asset allocation program for the client. The advisor will explain the Russell program and Model Strategies that are available to the client, as well as explain the rebalancing and reallocation guidelines used in the management of the Model Strategies. After that, Commonwealth will direct the allocation and rebalancing of the client’s Russell program account and chosen Model Strategies in line with the asset allocation policies and strategies provided to Commonwealth by Russell.

The annual total account fee includes Commonwealth’s annual advisory fee, an administrative fee, and a program fee (which includes the clearing, custody, and trading fees). The maximum Russell program annual total account fee may not exceed 2.25% and is negotiable between the advisor and the client. Commonwealth reserves the right to charge a minimum annual total account fee of \$1,000 or a minimum quarterly fee of \$250.

Clients participating in the Russell 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 account
- Specific investments made by the client
- Managers selected
- Amount of trading effected by the TPAM
- Actual costs of such services if purchased separately

The advisory fees charged for the services provided by Commonwealth, including research, supplemental advisory, and client-related services offered through the Russell program, may exceed those of other similar programs.

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

- Mutual fund or money market 12b-1 fees and subtransfer agent fees
- Mutual fund and money market management fees and administrative expenses
- Mutual fund transaction fees and redemption 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
- Other charges that may be required by law

Commonwealth and your advisor may receive a portion of these fees. More information may be found in the mutual fund prospectus that explains the fees and charges assessed by a specific mutual fund.

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.” 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.

### **PPS Loring Ward Model Strategies Program Services, Fees, and Compensation**

Commonwealth has an arrangement with Loring Ward Securities, Inc. (“Loring Ward”), a registered broker/dealer and the principal underwriter for the SA Funds – Investment Trust, a mutual fund with multiple series (the “SA Funds”). Commonwealth makes the Loring Ward Model Strategies program available to clients through a series of model strategies (“Model Strategies”) provided to Commonwealth by Loring Ward and designed to assist Commonwealth and its clients in building risk-based Model Strategies comprising mutual funds from either the SA Funds or Dimensional Fund Advisors Funds (the “DFA Funds”), which include varying percentages of equity and debt funds with degrees of risk and potential return. Loring Ward will monitor and make changes to the Model Strategies based on its individual investment analysis and asset allocation discipline and will communicate any changes in strategies to Commonwealth. Commonwealth will then manage the funds within the Model Strategies as selected by the client.

Based on the information provided to Commonwealth’s advisor by the client, the advisor will assist the client in determining the suitability of the Loring Ward program and the available Model Strategies in establishing an asset allocation program for the client. The Model Strategies provided by Loring Ward to Commonwealth will consist of mutual funds from either the SA Funds or the DFA Funds, and clients will have the option to select the Model Strategies available in the Commonwealth PPS Direct Loring Ward Model Strategies program using either the SA Funds or the DFA Funds. The advisor will explain the Loring Ward Model Strategies that are available to the Client and the overall rebalancing and reallocation guidelines used in the management of the Model Strategies. Once the client has selected the desired Loring Ward Model Strategies program and Commonwealth has received an “in good order” PPS Direct Loring Ward Model Strategies Program Client Agreement and Profile, Commonwealth will direct the allocation and rebalancing of the client’s Loring Ward program account and chosen Model Strategies in line with the asset allocation policies and strategies provided to Commonwealth by Loring Ward on an ongoing basis.

For Model Strategies using the DFA Funds, the Loring Ward Model Strategies program annual total account fee includes the annual advisor fee and a program fee of up to 30 basis points (0.30%). For Model Strategies using the SA Funds, the annual total account fee includes the annual advisor fee and a combined annual shareholder servicing fee of up to 25 basis points (0.25%) of all client funds invested in the SA Funds, calculated as of the last business day of each quarter and payable in four quarterly payments. Loring Ward directly receives management, shareholder servicing, and administrative fees from the SA Funds as discussed in the SA Funds' prospectus. The maximum Loring Ward annual total account fee will not exceed 3% and is negotiable between the advisor and the client. Commonwealth reserves the right to charge a minimum annual total account fee of \$1,000 or a minimum quarterly fee of \$250.

Overall, Commonwealth will receive higher compensation from client accounts using the SA Funds versus client accounts using the DFA Funds. This is because Commonwealth will receive a combined annual shareholder servicing fee from Loring Ward of up to 25 basis points (0.25%) of all client funds invested in the SA Funds. Conversely, although clients invested in the DFA Funds will pay to Commonwealth a program fee of up to 30 basis points (0.30%), Commonwealth will pay to Loring Ward a portfolio licensing fee of up to 15 basis points (0.15%) of all client funds invested in the DFA Funds. Therefore, the portfolio licensing fee that Commonwealth pays to Loring Ward will reduce the net amount of the program fee that Commonwealth would otherwise receive from client accounts using the DFA Funds. Because Commonwealth's advisors receive an advisory fee based on total asset values and do not receive a direct increase or change in compensation by recommending that clients use the SA Funds versus the DFA Funds, we do not believe Commonwealth advisors have a conflict of interest when recommending using the SA Funds versus the DFA Funds.

In deciding whether to use the SA Funds or the DFA Funds, clients should also consider that although they will incur higher external costs using the DFA Funds due to the program fee they will pay to Commonwealth, the DFA Funds have lower internal shareholder costs (i.e., a lower internal expense ratio) than the SA Funds. Conversely, although clients will incur higher internal shareholder costs by using the SA Funds due to the shareholder servicing fee they will pay to Loring Ward, clients using the SA Funds will incur lower external costs since no program fee is paid by the client to Commonwealth.

Clients participating in the Loring Ward 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 account
- Specific investments made by the client
- Managers selected
- Amount of trading effected by the TPAM
- Actual costs of such services if purchased separately

The advisory fees charged for the services provided by the advisor and Commonwealth, including research, custody and clearing services, and client-related services offered through the Loring Ward program, may exceed those of other similar programs.

In addition to the fees noted above, clients may also incur certain charges imposed by Commonwealth and third parties other than Commonwealth in connection with investments made through the Loring Ward program. These may include, but are not limited to, the following:

- Mutual fund or money market 12b-1 fees and subtransfer agent fees
- Mutual fund and money market management fees and administrative expenses
- Mutual fund transaction fees and redemption 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
- Various brokerage account service and miscellaneous fees, as applicable
- Other charges that may be required by law

Commonwealth and your advisor may receive a portion of these fees. More information that explains the fees and charges that may be paid by clients participating in the program may be found in the Commonwealth Brokerage Fee Schedule and relevant mutual fund prospectus for specific mutual funds utilized in the 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.” 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.

### **PPS Select Program Services, Fees, and Compensation**

The PPS Select program offers clients a managed account employing specific asset allocation models developed and managed by Commonwealth’s own Asset Management department. The account will be made up of a mix of asset classes with weightings based on risk profile, investment objective, individual client preferences, and availability. Clients will have the opportunity to periodically meet with their Commonwealth advisor to review their account. The account may be rebalanced at any time to help ensure that the account remains within reasonable deviation parameters of the specific asset allocation model selected by the client.

Commonwealth’s advisors will collect financial data from clients, help clients determine the suitability of the account, and help clients identify the appropriate investment objectives and strategies to be used. Each PPS Select account will have an appropriate percentage mix of asset classes allocated to the account, composed of domestic and/or international fixed income and equity mutual fund shares and/or ETFs.

Most often, several asset classes with varying degrees of risk will be used in a client’s portfolio, depending on the client’s risk profile, investment objectives, individual client preferences, and availability. Commonwealth will have complete and unlimited discretionary trading authority to purchase and sell no-load and load-waived mutual funds, closed-end funds, and ETFs, and to liquidate previously purchased securities that may be transferred into a PPS Select account, in accordance with the investment objectives and model allocations chosen by the client.

The maximum annual total account fee for PPS Select accounts may not exceed 2.25% and is negotiable between the advisor and the client. Commonwealth reserves the right to charge a minimum annual fee of \$1,000, or a minimum quarterly fee of \$250.

Clients with multiple PPS Select accounts that are identical in registration and title are eligible for aggregating the values of those accounts so that they may benefit from a lower PPS Select annual total account program fee calculation for those identically titled accounts than if the program fees were calculated on a per-account basis.

Clients participating in the PPS Select 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 account
- Specific investments made by the client
- Amount of trading effected by the TPAM
- Actual costs of such services if purchased separately

The advisory fees charged for the services provided by Commonwealth, including research, supplemental advisory, and client-related services offered through the PPS Select program, may exceed those of other similar programs.

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

- Mutual fund or money market 12b-1 fees 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 the account
- Other transaction charges and service fees
- IRA and qualified retirement plan fees
- Other charges that may be required by law

Commonwealth and the advisor may receive a portion of these fees. More information about the fees and charges assessed by a mutual fund may be found in the appropriate mutual fund prospectus.

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.” 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.

#### **Private Wealth Management Program Services, Fees, and Compensation**

Commonwealth has an arrangement with Envestnet Asset Management, Inc. (“Envestnet”), through which Commonwealth provides its clients with access to Envestnet’s wide range of investment advisory services via Envestnet’s Private Wealth Management Programs. These programs include SMAs, as well as mutual fund asset allocations and ETF solutions.

All Private Wealth Management Program services will include:

- Assessment of the client’s investment needs and objectives
- Development of an asset allocation strategy designed to meet the client’s objectives
- Recommendations on suitable style allocations
- Identification of appropriate managers and investment vehicles suitable to the client’s goals
- Evaluation of certain select asset managers and investment vehicles meeting style and allocation criteria
- Engagement of selected asset managers and investment vehicles on behalf of the client
- Ongoing monitoring of individual asset manager’s performance and management (for approved SMA managers and mutual funds only)
- Review of client accounts to ensure adherence to policy guidelines and asset allocation
- Recommendations for account rebalancing, if necessary

Based on information provided to Commonwealth by the client, a Commonwealth advisor will help determine the suitability of the program and the available Model Strategies in establishing an asset allocation program for the client. The advisor will explain to the client the program and Model Strategies that are available and explain the rebalancing and reallocation guidelines utilized in the management of the Model Strategies. After the account is open, Commonwealth will direct the allocation and rebalancing of the client’s program and chosen Model Strategies in line with the asset allocation policies and strategies provided to Commonwealth by Envestnet.

The annual total account fee includes Commonwealth's advisory fee, Envestnet's program fee, and clearing, custody, and trading fees. The maximum annual total account fee may not exceed 3% and is negotiable between the advisor and the client. Commonwealth reserves the right to charge a minimum annual total account fee of \$1,000, or a minimum quarterly fee of \$250.

Envestnet or its affiliates may receive 12b-1 fees from mutual funds in which clients invest. Fees charged with respect to mutual funds will be credited with the amount of any distribution or 12b-1 fees Envestnet receives.

The cost of investment advisory services provided through the Private Wealth Management Program may be more or less than the cost of purchasing similar services separately. Among the factors impacting the relative cost of the program to a particular client are the size of the account, the type of account (i.e., equity or fixed income), the size of the assets devoted to a particular strategy, and the managers selected. In some cases, advisors who recommend the Private Wealth Management Program to their clients may receive compensation from Envestnet as a result of their clients' participation in the program. This compensation may be more than what the advisor would receive if the client participated in other programs or paid separately for investment advice, brokerage, and other services. Such individuals may, therefore, have a financial incentive to recommend the program over other programs or services. The program fees, however, have not been increased to cover fees paid to those advisors.

Clients participating in the Private Wealth Management 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 portfolio
- Specific investments made by the client
- Amount of trading effected by the TPAM
- Actual costs of such services if purchased separately

The advisory fees charged for the services provided by Commonwealth, including research, supplemental advisory, and client-related services offered through the Private Wealth Management Program, may exceed those of other similar programs.

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

- Mutual fund or money market 12b-1 fees and subtransfer agent fees
- Mutual fund and money market management fees and administrative expenses
- Mutual fund transaction fees and redemption 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
- Other charges that may be required by law

Commonwealth and your advisor may receive a portion of these fees. More information may be found in the mutual fund prospectus that explains the fees and charges assessed by a specific mutual fund.

#### **Other General Costs That May Apply to All Programs Described in This Brochure**

Other costs that may be charged and that are not part of those mentioned in the various program descriptions above include fees for portfolio transactions executed away from the broker/dealer or custodian selected by the client, dealer markups, electronic fund and wire transfers, spreads paid to market-makers, and exchange fees, among others. The program fees described above do not cover certain charges associated with securities transactions in clients' accounts, including (i) dealer markups, markdowns, or spreads charged on transactions

in over-the-counter securities; (ii) costs relating to trading in certain foreign securities; (iii) the internal charges and fees assessed on collective investment vehicles, such as mutual funds and closed-end funds, unit investment trusts, ETFs, or real estate investment trusts ("REITs") (such as fund operating expenses, management fees, redemption fees, 12b-1 fees, and other fees and expenses; further information regarding charges and fees assessed on collective investment vehicles may be found in the appropriate prospectus or offering document), or other regulatory fees; (iv) brokerage commissions or other charges imposed by broker/dealers or entities other than the custodian if and when trades are cleared by another broker/dealer; (v) the charge to carry tax lot information on transferred mutual funds or other investment vehicles, postage and handling charges, returned check charges, transfer taxes, stock exchange fees, or other fees mandated by law; and (vi) any brokerage commissions or other charges, including contingent deferred sales charges ("CDSC"), imposed upon the liquidation of "in-kind assets" that are transferred into a program account.

With respect to this latter type of charge, Commonwealth or the appointed third-party investment adviser or money manager may liquidate such assets transferred into a program account in their sole discretion. Clients should thus be aware that if they transfer in-kind assets into a program account, such assets may be liquidated immediately or at a future point in time, and clients may incur a brokerage commission or other charge, including a CDSC. Clients also may be subject to taxes when such liquidations of assets take place. Accordingly, clients should consult with their Commonwealth advisor and tax consultant before transferring in-kind assets into a program. The broker/dealer or custodian may charge the client certain additional and/or minimum fees.

A client may also incur redemption fees when the third-party investment adviser or money manager to an investment strategy determines that it is in the client's overall interest, in conjunction with the stated goals of the investment strategy, to divest from certain collective investment vehicles prior to the expiration of the collective investment vehicle's minimum holding period. Depending on the length of the redemption period, the particular investment strategy, and/or market circumstances, a third-party investment adviser or money manager may be able to minimize any redemption fees when, in their discretion, it is reasonable to allow a client to remain invested in a collective investment vehicle until expiration of the minimum holding period.

In certain programs, the total annual account fee does not cover certain custodial fees that may be charged to clients by the custodian. Clients also may be charged for specific account services, such as ACAT transfers, electronic fund and wire transfers, and for other optional services elected by clients. Accounts may be subject to transaction-based ticket charges assessed by the custodian for the purchase of certain mutual funds. Similarly, the total annual account fee does not cover certain non-brokerage-related fees, such as IRA trustee or custodian fees and tax-qualified retirement plan account fees and annual and termination fees for retirement accounts, such as IRAs.

**Special Disclosures for ERISA Plans:** In this Brochure, Commonwealth has disclosed potential 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 potential conflict of interest of advisors who receive 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.

## **ACCOUNT REQUIREMENTS AND TYPES OF CLIENTS**

### **PPS Direct Programs**

The PPS Direct Mutual Fund/ETF account program generally requires a \$25,000 minimum investment for mutual fund accounts and a \$100,000 minimum investment for ETF accounts.

At Commonwealth's and Envestnet's discretion, an account may be established at a lower minimum.

The minimum account size required to participate in the PPS Direct SMA program is normally \$100,000. The minimum account size required to participate in the PPS Direct Strategist program is normally \$25,000. The minimum account size required to participate in the PPS Direct UMA program is normally \$400,000. At Commonwealth's and Envestnet's discretion, an account may be established at a lower minimum.

### **PPS Russell Model Strategies Program**

The PPS Russell Model Strategies minimum account size is generally \$25,000.

### **PPS Loring Ward Model Strategies Program**

The PPS Loring Ward Model Strategies minimum account size is generally \$50,000.

### **PPS Select Program**

The PPS Select program is generally available to client accounts with an initial value of at least \$25,000.

### **Private Wealth Management Program**

The minimum account size for a Private Wealth Management Mutual Fund account is generally \$50,000. The minimum account size for a Private Wealth Management Equity SMA is generally \$100,000. The minimum account size for a Private Wealth Management Fixed Income SMA is generally \$250,000.

Depending on the strategy selected, some Private Wealth Management account minimums may be higher than described above.

### **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 a 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.

## **PORTFOLIO MANAGER SELECTION AND EVALUATION**

### **PPS Direct Program**

In the review, analysis, and approval of TPAMs or Money Managers for the PPS Direct Mutual Fund/ETF or PPS Direct SMA/UMA and Strategist program, Commonwealth will perform due diligence on the TPAM or



Money Manager in line with Commonwealth's current policies and practices at the time. In conducting its due diligence of each TPAM or Money Manager, Commonwealth will generally consider the following:

- Investment strategy and discipline
- Performance history
- Experience
- Marketing materials
- Nature of client base
- Reporting capabilities
- Disciplinary history
- Form ADV Part 1 and Part 2 disclosures and financial condition
- Availability to clients of Commonwealth
- Ability to trade through Commonwealth

Once a TPAM or Money Manager is retained in the PPS Direct program, Commonwealth will monitor the TPAM or Money Manager's performance, assets under management, disciplinary history, and investment strategy discipline. Commonwealth's monitoring of the TPAM or Money Manager's performance does not typically include any calculation or determination as to the accuracy of any performance information that may be provided by the respective TPAM or Money Manager. Since Commonwealth itself is the sponsor of the PPS Direct program, however, and receives electronic transaction and account data directly from NFS or Pershing LLC ("Pershing"), a Bank of New York Mellon company, as broker/dealer and investment adviser of record, Commonwealth prepares and makes available to PPS Direct account clients its own performance reports. Commonwealth urges you to compare the account statements you receive from your account custodian with the statements you receive from us or your advisor. While account holdings and asset valuations should generally match, for purposes of calculating performance and account valuations on your PPS program account, Commonwealth performance statement month-end market values sometimes differ from NFS or Pershing 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 statements you receive from Commonwealth or your advisor, please contact Commonwealth directly at 800.251.0080.

Based upon Commonwealth's monitoring of the TPAM or Money Manager, your Commonwealth advisor may recommend that a particular TPAM or Money Manager be terminated or replaced. Such a recommendation may be based on a number of factors, including, but not limited to, the following:

- Performance, changes, or deviations in the TPAM's or Money Manager's stated investment strategy or style
- Changes in the disciplinary history of the TPAM or Money Manager
- Changes in a client's objectives, financial circumstances, goals, or needs

TPAM or Money Manager strategies approved for Commonwealth's PPS Direct programs will generally reside in one of four categories—Recommended, Offered, Accommodative, or Closed—as more fully described below.

**A. Recommended Status for PPS Direct Program Manager Strategies.** Manager strategies on "Recommended" status may be selected from the existing pool of offered managers, but are frequently sought out directly by the Investment Research team. Managers who are on the Recommended List are subject to ongoing due diligence by the Investment Research team. Such reviews consider quantitative and qualitative factors, absolute and relative performance, style consistency, risk management, operational parameters, and other considerations. Commonwealth will make quarterly performance available to Commonwealth advisors and their clients. Further analysis and periodic communication may also be provided to Commonwealth's advisors and their clients as necessary or appropriate.

**B. Offered Status for PPS Direct Program Manager Strategies.** At times, PPS Direct manager strategies may be removed from the Recommended List and reclassified in an “Offered” status. Potential reasons for such occurrences could include performance concerns, operational issues, and limited use by Commonwealth’s advisors and their clients. Commonwealth’s advisors receive notification of managers who are removed from the Recommended List. Managers who are on the Offered list are subject to ongoing due diligence by the Investment Research team. Such reviews consider quantitative and qualitative factors, absolute and relative performance, style consistency, risk management, operational parameters, and other considerations. Commonwealth will make quarterly performance available to Commonwealth advisors and their clients. Managers listed as Offered status are generally not marketed to Commonwealth advisors and may only be available for use under limited circumstances.

**C. Accommodative Status for PPS Direct Program Manager Strategies.** Commonwealth will periodically add manager relationships pursuant to the request of one or more Commonwealth advisors. Managers who are on the “Accommodative” list are subject to ongoing due diligence by the Investment Research team. Such reviews consider quantitative and qualitative factors, absolute and relative performance, style consistency, risk management, operational parameters, and other considerations. Commonwealth will make quarterly performance available to Commonwealth advisors and their clients. Managers listed as Accommodative status are generally not marketed to Commonwealth advisors and may only be available for use under limited circumstances.

**D. Closed Status for PPS Direct Program Manager Strategies.** Managers who elect to close an existing strategy to new or existing client investments, or who are subject to termination by Commonwealth, will be reclassified under a “Closed” status. Commonwealth advisors using such managers at the time of closing will be notified accordingly. Managers who are on the Closed list are subject to ongoing due diligence by the Investment Research team for as long as Commonwealth maintains client accounts at the manager. Such reviews consider quantitative and qualitative factors, absolute and relative performance, style consistency, risk management, operational parameters, and other considerations. Commonwealth will make quarterly performance available to Commonwealth advisors and their clients who continue to participate in a closed program.

Commonwealth advisors assist their clients in choosing a PPS Direct program that the advisor believes is consistent with the client’s risk tolerance and investment objectives, among other factors. The advisor will also assist clients in selecting a particular manager who has developed a model portfolio that the advisor believes is reasonably designed to meet the client’s long-term goals. Some strategies may be high-risk strategies. Such strategies usually have the potential for substantial returns; however, there are also significant risks involved in the strategies. Such strategies are not ideal or intended for all investors. Clients who choose to follow high-risk strategies should be aware that there is the possibility of significant losses and even total loss of all assets placed in the strategies.

### **Private Wealth Management Program**

Regarding asset management and investment vehicle evaluation, Envestnet employs a rigorous multiphase approach to researching and selecting managers that are deemed suitable for participation in its investment programs (“Approved Submanagers”). Approved Submanagers are evaluated using data and information from several sources, including the manager and independent databases. Among the types of information analyzed are:

- Historical performance
- Investment philosophy
- Investment style
- Historical volatility
- The manager’s Form ADV Part 2
- Portfolio holdings reports that help demonstrate the manager’s securities selection process

The investment professionals at the investment management firms are a primary source of information to Envestnet, providing quantitative and qualitative information. Envestnet also employs several publicly available databases from independent sources, including, but not limited to, the following:

- Nelson's Directory of Investment Managers
- Mobius M-Search database
- Morningstar's Principia application, Bloomberg
- Russell Mellon

Envestnet looks for managers with a variety of investment strategies in an effort to make a wide range of investment strategies available to clients. Some strategies may be high-risk strategies. Such strategies usually have the potential for substantial returns; however, there are also significant risks involved in the strategies. Such strategies are not ideal or intended for all investors. Clients who choose to follow high-risk strategies should be aware that there is the possibility of significant losses and even total loss of all assets placed in the strategies.

Envestnet also makes available to clients certain submanagers for which it hasn't performed due diligence ("Available Submanagers"). Envestnet makes no recommendations concerning Available Submanagers. In the review, analysis, and approval of any Available Submanager, Commonwealth will perform due diligence on the Available Submanager in line with its existing policies and standards at the time. In conducting its due diligence of each Available Submanager, Commonwealth will generally consider the following:

- Investment strategy and discipline
- Performance history
- Experience
- Marketing materials
- Nature of client base
- Reporting capabilities
- Disciplinary history
- Form ADV Part 1 and Part 2 disclosures and financial condition
- Availability to clients of Commonwealth
- Ability to trade through Commonwealth

## **CLIENT INFORMATION PROVIDED TO PORTFOLIO MANAGERS**

Commonwealth's PPS Direct Mutual Fund/ETF program is a turnkey mutual fund/ETF wrap program with portfolio management provided by well-established institutional subadvisers. The subadvisers manage the client's investment portfolios by aligning the prudent risk tolerance, time horizon, and investment objectives that the client communicated to his or her Commonwealth advisor with the subadviser's tactically managed mutual fund/ETF model portfolios.

Commonwealth provides PPS Direct Mutual Fund/ETF program subadvisers with an executed copy of the client's PPS Direct Client Agreement and Profile at the time the account is opened. Copies of updates that are made to the Client Profile are provided to subadvisers as changes occur. The Client Profile information includes, but is not limited to, the client's name, address, telephone number, social security or tax ID number, date of birth, financial information, investment time horizon, and risk tolerance. Commonwealth will also notify subadvisers of any reasonable restrictions that the client wishes to impose on the management of his or her PPS Direct accounts or the names or types of securities that should or should not be purchased, sold, or held in his or her PPS Direct accounts.

Commonwealth's PPS Direct SMA/UMA and Strategist program offers the advisory services of institutional money managers using individual securities as the underlying investments. These style-specific managed accounts are designed to meet a particular investment focus or style objective chosen by the client.

Commonwealth provides the information provided by the client in the Envestnet Statement of Investment Selection ("SIS") to Envestnet at the time the account is opened. Envestnet, in turn, provides the information contained in the SIS to the portfolio managers. Copies of updates that are made to the SIS are provided to subadvisers as changes occur. The SIS information includes, but is not limited to, the client's name, initial investment amount, risk tolerance and investment selection, and Commonwealth account number. Envestnet will also provide the client's social security or tax ID number, date of birth, and address to portfolio managers. Commonwealth will also notify Envestnet, who will, in turn, notify portfolio managers, of any reasonable restrictions that the client wishes to impose on the management of his or her PPS Direct accounts or the names or types of securities that should or should not be purchased, sold, or held in his or her PPS Direct accounts.

Commonwealth's PPS Select program is a turnkey advisory solution that outsources the investment selection, trading, and rebalancing to Commonwealth's own Operations and Investment Research teams as the sponsor and manager of the program. Commonwealth utilizes the client's PPS Select Client Agreement and Profile at the time the account is opened. Copies of updates that are made to the Client Profile are provided to Commonwealth as changes occur. The Client Profile information includes, but is not limited to, the client's name, address, telephone number, social security or tax ID number, date of birth, financial information, investment time horizon, risk tolerance, and portfolio name and description that is selected by the client. Commonwealth will also notify subadvisers of any reasonable restrictions that the client wishes to impose on the management of his or her PPS Select accounts or the names or types of securities that should or should not be purchased, sold, or held in his or her PPS Select accounts.

## **CLIENT CONTACT WITH PORTFOLIO MANAGERS**

Commonwealth does not place any restrictions on clients' ability to contact or consult with their portfolio managers during normal business hours. Clients may also contact their Commonwealth advisor to discuss the management of their Commonwealth accounts during normal business hours.

## **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.

In November 2008, an intruder obtained the login credentials of one Commonwealth registered representative ("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.

In 2004, a former RR confessed to misappropriating funds from clients of his independent Registered Investment Adviser, which was not affiliated with or controlled by Commonwealth. The RR was associated with Commonwealth from 1991 until he left the firm in 2001. Commonwealth, without admitting or denying the allegations, consented to an SEC administrative order finding that, in its capacity as a broker/dealer, it failed to reasonably supervise the RR in that it had not established reasonable policies and procedures for responding to red flags relating to the RR's outside business activities and for reviewing his incoming mail. On September 6, 2007, the SEC accepted Commonwealth's offer of settlement and entered an administrative order. Without admitting

or denying the findings, Commonwealth consented to a censure, disgorgement of \$1, and a civil money penalty of \$250,000 for failing to supervise a former RR.

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.

On or about August 26, 2005, the National Association of Securities Dealers ("NASD") found that Commonwealth violated NASD Conduct Rules 2830(k) and 2110 by maintaining a revenue sharing program between January 2001 and December 2003, pursuant to which, in return for a fee, participating mutual fund complexes received preferential treatment in the marketing of funds. Additionally, Commonwealth was found to have violated Section 17(a) of the Securities Exchange Act of 1934 and NASD Conduct Rule 3110 by failing to retain e-mails for the required time period.

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

**A. Commonwealth, the Broker/Dealer.** Commonwealth is a dual registrant, which means it is both a Registered 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. Your advisor is registered with Commonwealth's broker/dealer as an RR and may also be a licensed insurance agent 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 your advisor may receive mutual fund 12b-1 fees, service fees, due diligence fees, marketing reimbursements, or other payments relating to a client's investment in or otherwise supporting Commonwealth's or your advisor's activities regarding the securities and insurance products recommended, purchased, or held in your investment advisory program. 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 these fees, payments, and other compensation may present a potential conflict of interest because Commonwealth or your advisor may have a greater incentive to recommend those investment advisory products or programs or make investment decisions regarding investments that provide such additional compensation to Commonwealth or your advisor.

**D. Commonwealth's Relationships with Other Investment Advisers.** Commonwealth and your advisor may serve as solicitors for 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 may, 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 may 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.

### **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 potential 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 potential 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

Generally, Commonwealth does not buy or sell securities for its own account that it recommends to (or purchases or sells for) clients. Commonwealth's advisors, however, 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 advisors from "trading ahead" of their clients' transactions. When purchasing or selling securities for the personal accounts of advisors and their clients, priority must be given to the advisor's client transactions. Commonwealth has implemented surveillance and exception reports that are designed to identify and correct situations in which the personal transactions of advisors are placed ahead of the advisors' clients.

### **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.

Clients who participate in one or more of Commonwealth's PPS Direct programs or the Private Wealth Management Program select one or more portfolio managers and model strategies that are reasonably designed to conform to the client's individual financial condition, investment objectives and long-term goals. Once clients select a particular model portfolio the selected portfolio manager will automatically rebalance or reallocate the client's assets in a manner that is consistent with the objectives and risk tolerance of the chosen model portfolio. The client's Commonwealth advisor will continue to review the client's accounts during the normal course of business, and will discuss any relevant specifics involving the portfolio manager's ongoing management of the client's assets during the regular discussions or meetings between the advisor and the client.

## **Client Referrals and Other Compensation**

**A. Commonwealth as Solicitor.** Commonwealth and your advisor serve as solicitors for a variety of third-party investment advisers. 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 may, 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 or your Commonwealth advisor may also receive training and educational support, marketing support, enhanced service, 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, may 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.** 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." 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. 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.

## **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.

**WALTHAM OFFICE**

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COMMONWEALTH.COM

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MEMBER FINRA/SIPC