



Part 2A Appendix 1: Wrap Fee Program Brochure

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This Wrap Fee Program Brochure provides information about the qualifications and business practices of Prospera Financial Services, Inc. (also referred to as we, us and PFS throughout this disclosure brochure). If you have any questions about the contents of this brochure, please contact us at 972-581-3000. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. Additional information about PFS is also available on the Internet at www.adviserinfo.sec.gov. You can view our firm's information on this website by searching for "Prospera Financial Services" or our firm's CRD number (10740) or our SEC number (801-65845).

***Registration as an investment adviser does not imply a certain level of skill or training.**

Item 2 – Material Changes

The following is a summary of the material changes made to this Brochure on and since the last annual update on December 23, 2019:

- Updated Item 4 with information about the use of margin, that we bill on margin balances, the margin rates we set, and the conflict therein.
- Updated Item 4 to note positions subject to advisory billing exclusion pay 12b-1 fees to PFS and your Financial Advisor.

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Item 4 – Services, Fees and Compensation

P-Summit Wrap Advisory Program - Services, Fees, and Compensation

The P-Summit Wrap Advisory Program (P-Summit) account enables an advisor to assist the client in developing a personalized investment portfolio using one or more investment types, including, but not limited to, stocks, bonds, mutual funds, ETFs, unit investment trusts ("UITs"), variable and fixed-indexed annuities, and alternative investments. The advisor typically acts as portfolio manager, with full investment discretion, although clients may elect to have the advisor manage the account on a nondiscretionary basis. The account will be tailored to the particular needs of the client and may consist of a mix of asset classes and weightings based on risk profile, investment objective, and individual preferences. The client will have the opportunity to periodically meet with the advisor to review the account. The client account may be rebalanced at any time, pursuant to the discretion granted, to maintain the chosen asset allocation. The client account may also be reallocated as necessary when warranted by market conditions or changes in the client risk profile, investment objective, or other relevant circumstances. P-Summit accounts are custodied with Pershing.

Clients participating in the P-Summit account will pay a total management fee, which is negotiable, and any applicable account fees.

The maximum management fee for a P-Summit account shall not exceed 3% of assets under management.

P-Summit accounts include 120 free trades per calendar year after which a \$19.95 transaction fee applies.

Clients participating in the P-Summit account 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
- Types of securities and strategies involved
- Amount of trading effected by the advisor
- Actual costs of such services if purchased separately

The advisory fees charged for the services provided by PFS and your advisor, including research, supplemental advisory, and client-related services offered through the P-Summit account, may exceed those of other similar programs.

In addition to the fees noted above, clients incur certain charges in connection with investments made through the P-Summit account. PFS receives a portion of these fees. These include, but are not limited to, the following:

- Mutual fund or money market 12b-1 fees, sub-transfer agent fees, and distributor fees
- Mutual fund and money market management fees and administrative expenses
- Mutual fund transaction 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
- Brokerage account fees and charges

PFS credits 12b-1 fee payments received back to all PFS P-Summit accounts. 12b-1 fees received by PFS will be credited back to client accounts quarterly unless the position is excluded from advisory billing.

Summit II Advisory Program - Services, Fees, and Compensation

PFS sponsors the Summit II Advisory Program (Summit II), an investment advisory asset allocation program. Summit II is a wrap-fee program because it does not charge transaction costs to the client, unless the client exceeds 40 trades per year after which a transaction charge of \$7.95 per trade applies. However, the investment advisor representative (at his sole discretion) may elect (but is not obligated) to pay these fees rather than pass them through to you for certain account types. Your advisor may also recommend National Financial

Services, LLC (NFS) approved No Transaction Fee mutual funds (NTF), which are not assessed any transaction charge. Although NTF funds do not assess transaction charges, most NTF funds have higher internal expenses than funds that do not participate in an NTF program. These higher internal fund expenses are assessed to investors who purchase or hold NTF funds. Depending upon the frequency of trading and hold periods, NTF funds may cost you more, or may cost PFS or your advisor less, than mutual funds that assess transaction charges but have lower internal expenses. In addition, the higher internal expenses charged to clients who hold NTF funds will adversely affect the long-term performance of their accounts when compared to share classes of the same fund that assess lower internal expenses. For those PFS advisory programs that assess transaction charges to clients or to PFS or the advisor, a conflict of interest exists because PFS and your advisor have a financial incentive to recommend or select NTF funds that do not assess transaction charges but cost you more in internal expenses than funds that do assess transaction charges but cost you less in internal expenses. In addition to reading this Brochure carefully, clients are urged to inquire whether lower-cost share classes are available and/or appropriate for their account in consideration of their expected investment holding periods, amounts invested, and anticipated trading frequency. Further information regarding fees and charges assessed by a mutual fund is available in the appropriate mutual fund prospectus.

The Summit II account enables an advisor to assist the client in developing a personalized investment portfolio using one or more investment types, including, but not limited to, stocks, bonds, mutual funds, ETFs, unit investment trusts ("UITs"), variable and fixed-indexed annuities, and alternative investments. The advisor typically acts as portfolio manager, with full investment discretion, although clients may elect to have the advisor manage the account on a nondiscretionary basis. The account will be tailored to the particular needs of the client and may consist of a mix of asset classes and weightings based on risk profile, investment objective, and individual preferences. The client will have the opportunity to periodically meet with the advisor to review the account. The client account may be rebalanced at any time, pursuant to the discretion granted, to maintain the chosen asset allocation. The client account may also be reallocated as necessary when warranted by market conditions or changes in the client risk profile, investment objective, or other relevant circumstances. Summit II accounts are custodied with Fidelity.

Clients participating in the Summit II account will pay a total management fee, which is negotiable, and any applicable account fees.

The maximum management fee for a Summit II account shall not exceed 3% of assets under management.

Clients participating in the Summit II account 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
- Types of securities and strategies involved
- Amount of trading effected by the advisor
- Actual costs of such services if purchased separately

The advisory fees charged for the services provided by PFS and your advisor, including research, supplemental advisory, and client-related services offered through the Summit II account, may exceed those of other similar programs.

In addition to the fees noted above, clients incur certain charges in connection with investments made through the Summit II account. PFS receives a portion of these fees. These include, but are not limited to, the following:

- Mutual fund or money market 12b-1 fees, sub-transfer agent fees, and distributor fees
- Mutual fund and money market management fees and administrative expenses
- Mutual fund transaction 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
- Brokerage account fees and charges

PFS credits 12b-1 fee payments received back to all PFS Summit II accounts. 12b-1 fees received by PFS will be credited back to client accounts quarterly.

Only PFS investment advisor representatives serve as portfolio managers in Summit II. Therefore, participants in Summit II must be advisory clients of PFS. Through Summit II, we provide investment supervisory and management services defined as providing continuous investment advice based on your individual needs. Services are only provided on a discretionary (Advisor Directed) basis. Upon execution of a *Summit II Advisory Agreement*, we will assist you in establishing an individual account (Account) cleared through National Financial Services, LLC (NFS) as a result of our participation in the Fidelity Institutional Wealth Services program. All client accounts through the Summit II program must be established through NFS, which serves as the qualified custodian-broker/dealer.

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:

- dealer markups, markdowns, or spreads charged on transactions in over-the-counter securities;
- costs relating to trading in certain foreign securities;
- the internal charges and fees assessed on collective investment vehicles, such as mutual funds and closed-end funds, UITs, ETFs, or real estate investment trusts ("REITs");
- 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;
- 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
- 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.

PFS or the appointed third-party investment adviser or Money Manager may liquidate assets transferred into a program account in their sole discretion. Clients should 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 incur a brokerage commission or other charge, including a CDSC. Clients will also be responsible for the payment of any taxes when liquidations of assets held in their account take place. Accordingly, clients should consult with their 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.

In certain programs, the total annual account fee does not cover certain custodial fees that are charged to clients by the custodian. Clients will be charged for specific account services, such as ACAT transfers, electronic fund and wire transfers, and for other optional services elected by clients. Accounts will be subject to transaction-based ticket charges for the purchase or sale of certain mutual funds depending upon the specific program account selected by the client.

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.

For the purposes of calculating fees, "Account Value" shall mean the sum of the absolute market value of all eligible long and short security positions, including accrued income, cash and cash alternatives held in your Account. To the extent margin is used in your Account, you should be aware that the margin debit balance does not reduce the Account Value. If you use margin to purchase additional securities, your Account Value increases and therefore the amount of fees you pay will increase. You will also be charged margin interest on the debit balance in your Account. Margin interest is in addition to the Program Fee and Platform Fee. The interest charges, combined with Fee, may exceed the income generated by the assets in your Account and, as a result, the value of your Account may decrease. In determining the Account Value, we will use the closing prices or, if not available, bid prices of the last recorded transactions for listed securities, options and over-the-counter securities. For mutual funds, we will use the fund's most current net asset value, as computed by the fund company. We will use information provided by quotation services believed to be reliable in determining the Account Value. If any such prices are unavailable or believed to be unreliable, we will determine prices in good faith so as to reflect our understanding of fair market value. The Fee will be applied to cash alternatives (i.e., money market funds) held inside the Account. Clients will, in most instances, pay more in fees with respect to sweep vehicle holdings, than the interest earnings that may be generated by these sweep vehicle holdings. Due to trade

date or settlement date accounting, the treatment of accrued income, short positions and other factors, the Account Value used in the calculation of fees could differ from that shown on your monthly account statement and/ or performance report

Whenever there are changes to your fee schedule, the schedule charges previously in effect shall continue until the next billing cycle. We have the ability to amend your Client Agreement at any time. Any changes we make to your Client Agreement will be effective after 15 days written notice to you. Your continued use of the services indicates your agreement to the modified terms.

To the extent margin is used in your account you should be aware that the margin debit balance will not reduce the market value of eligible assets and will therefore increase the asset-based fee you are charged. The increased asset-based fee is an incentive for your IAR to recommend the use of margin strategies. The use of margin is not suitable for all investors since it increases leverage in your account and therefore the risk and potential for losses. PFS also sets the margin rates for accounts, so this is an additional conflict when recommending margin.

Special Disclosures for ERISA Plans. In this Brochure, PFS has disclosed conflicts of interest, such as receiving additional compensation from third parties (e.g., 12b-1 fees, sub-transfer agent fees, and revenue sharing) for providing marketing, recordkeeping, or other services in connection with certain investments. PFS, 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, PFS has taken several steps to address the conflict of interest associated with PFS's or PFS's advisors' receipt of compensation for services provided to ERISA plans.

First, an advisor negotiates the compensation with ERISA plan sponsors or participants ("ERISA clients") and the compensation is either an annual fee for ongoing services based on a percentage of assets under advisement, a flat fee, or an hourly rate. Second, to the extent that an advisor receives additional compensation from a third party, the advisor must report it to PFS to enable the additional compensation to be offset against the fees that the ERISA clients would otherwise pay for the advisor's services. Third, PFS 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 PFS or the advisor might receive from third parties. In no event will PFS allow advisors to provide advice or manage assets for ERISA clients if they have conflicts of interest that PFS believes are prohibited by ERISA.

As a covered service provider to ERISA plans, PFS 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, PFS and its advisors will disclose

- direct compensation received from ERISA clients;
- indirect compensation (e.g., 12b-1 fees) received from third parties; and
- 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.

Brokerage, Clearing and Custody

P-Summit. P-Summit program accounts managed must be established at PFS (as the introducing broker/dealer) and cleared through Pershing, LLC, a registered broker/dealer, member FINRA/SIPC.

We established a clearing agreement with Pershing to act as our clearing broker/dealer and qualified custodian for certain advisors of our firm. The decision to include Pershing in our clearing arrangements is based on past experience, minimizing commissions and other costs as well as offerings or services Pershing provides us that we and our clients may require or find valuable, such as online access. Costs associated with using us and/or Pershing may be higher than those obtainable from other broker/dealers in return for products and services offered through us and Pershing. Commission and fee structures of various broker/dealers are periodically reviewed to ensure clients are receiving best execution. Accordingly, while we will consider our rates competitive, they may not necessarily be the lowest possible commission rates for your account transactions.

Through the relationship with Pershing, we receive economic and non-economic benefits. See Item 12 of the ADV Part 2 for more information on conflicts and economic benefits. These benefits include, but are not necessarily limited to:

- A Relationship Manager and phone line dedicated to PFS accounts on the Pershing platform,
- Receipt of duplicate client confirmations and bundled duplicate statements, access to Online Access (through which clients may access their account information over the internet),
- Availability of third-party research and technology,
- Access to a trading desk for entitled employees,
- Access to block trading which provides the ability to aggregate securities transactions and
- Allocate the appropriate share amount to client accounts,
- The ability to have advisory fees directly debited from client accounts (in accordance with federal and state requirements),
- Electronic download of trades, balances and position information,
- Access to NetX360, and
- Access to an electronic communications network for client order entry and account information.

Summit II. Summit II program accounts must be established at PFS (as the introducing broker/dealer) and cleared through Fidelity/NFS, LLC, a registered broker/dealer, member FINRA/SIPC.

We established a clearing agreement with Fidelity to act as our clearing broker/dealer and qualified custodian for certain advisors of our firm. The decision to include Fidelity in our clearing arrangements is based on past experience, minimizing commissions and other costs as well as offerings or services Fidelity provides us that we and our clients may require or find valuable, such as online access. Costs associated with using us and/or Fidelity may be higher than those obtainable from other broker/dealers in return for products and services offered through us and Fidelity. Commission and fee structures of various broker/dealers are periodically reviewed to ensure clients are receiving best execution. Accordingly, while we will consider our rates competitive, they may not necessarily be the lowest possible commission rates for your account transactions.

Through the relationship with Fidelity, we receive economic and non-economic benefits. See Item 12 of the ADV Part 2 for more information on conflicts and economic benefits. These benefits include, but are not necessarily limited to:

- A Relationship Manager and phone line dedicated to PFS accounts on the Fidelity platform,
- Receipt of duplicate client confirmations and bundled duplicate statements, access to Online Access (through which clients may access their account information over the internet),
- Availability of third-party research and technology,
- Access to block trading which provides the ability to aggregate securities transactions and
- Allocate the appropriate share amount to client accounts,
- The ability to have advisory fees directly debited from client accounts (in accordance with federal and state requirements),
- Electronic download of trades, balances and position information, and
- Access to an electronic communications network for client order entry and account information.

Block Trading

Investment advisors may elect to purchase or sell the same securities for several clients at approximately the same time when they believe such action may prove advantageous to clients. This process is referred to as aggregating orders, batch trading or block trading. PFS does not engage in block trading.

It should be noted that implementing trades on a block or aggregate basis may be less expensive for client accounts; however, it is our trading policy to implement all client orders on an individual basis. Therefore, we do not aggregate or "block" client transactions. Considering the types of investments we hold in advisory client accounts, we do not believe clients are hindered in any way because we trade accounts individually. This is because we develop individualized investment strategies for clients and holdings will vary. Our strategies are primarily developed for the long-term and minor differences in price execution are not material to our overall investment strategy.

Margin Loans

Certain Advisory Programs may permit margin borrowing and trading. We will not extend margin in an advisory account unless authorized by you through a separate margin agreement. You are responsible for notifying us if you decide that you no longer want to use margin in your Account. You may also discontinue use of margin in your Account according to the terms of the Client Agreement. We are not responsible for any losses resulting from our failure or delay in implementing such instructions.

- Margin Loans Are Subject to Separate Terms and Conditions. If you take out a Margin Loan, the terms and conditions applicable to the Margin Loan are governed by the Margin Disclosure Statement and the Client Agreement. You should review carefully the terms, conditions, and risk disclosures for Margin Loans and understand that such risks are heightened in the event you hold a concentrated position in your pledged Account or if your pledged Account makes up all, or substantially all, of your overall net worth or investable assets. Certain eligibility requirements must be met, and documentation in the form of a separate margin agreement must be completed prior to using margin.
- Costs Are in Addition to Advisory Fees. As discussed above, if you use margin to purchase additional securities, your Account Value increases and therefore the amount of fees you pay will increase. You will also be charged margin interest on the debit balance in your Account, which is in addition to Fee. This results in additional compensation to us. The interest charged on a Margin Loan is higher than the interest charged on Securities-Based Loans.
- We Have an Incentive to Recommend the Use of Margin. The increased asset-based fee and interest that you pay on a Margin Loan provides an incentive for your Financial Advisor to recommend the use of margin. Your Financial Advisor also has an incentive to use margin to purchase additional securities and other assets instead of selling existing securities or other assets, and PFS sets the margin rates, which is an additional conflict. We address these conflicts by disclosing them to you.
- Margin Loans May Not Be Suitable for You. Using margin is not suitable for all investors. As described in the next paragraph, the use of margin increases leverage in your Account and therefore increases risk to a portfolio. We generally believe the use of margin is most appropriate when short in duration. Before deciding to use margin, you should consider the intended duration and total cost of the Margin Loan, as well as other options available to you, such as alternative loan options or liquidating your Account assets.
- Using Margin Involves Higher Risks. Generally, we believe that the use of margin adds risk to a portfolio that you should not assume unless you are prepared to experience significant losses. Losses in the value of an asset purchased on margin will be magnified because of the use of borrowed money. You can lose more funds than amounts deposited in margin accounts. In addition, you generally will not benefit from using margin unless the performance of your Account exceeds interest expenses on the Margin Loan plus advisory fees incurred. You should also understand that the use of margin can negatively impact our ability to rebalance your account. You should carefully consider whether the additional risks are appropriate prior to using margin due to the increased potential for significantly greater losses associated with using margin. You assume full responsibility for the use of margin in your Account. **Please see the Margin Disclosure Statement and the Client Agreement for more details on the risks of margin use. You should read this documentation carefully.**

Securities-Based Loan Programs

You may pledge your Account assets as collateral for Securities-Based Loan Programs with our consent and where you are eligible under the programs. In order for your Account to be eligible to serve as collateral for a Securities-Based Loan, your Account may not also serve as collateral for a Margin Loan. If you wish to use your Account as collateral for a Securities-Based Loan, we will automatically discontinue the availability of margin for your Account.

There are risks, costs, and conflicts of interests associated with Securities-Based Loan Programs. You are encouraged to speak with your Financial Advisor to the extent you have questions about how your Account may be used in connection with a Securities-Based Loan Program and how such arrangement should be taken into consideration when discussing the management of your Account.

- Securities-Based Loan Programs Are Subject to Separate Terms and Conditions. If you have elected to participate in a

Securities-Based Loan Program, the terms and conditions applicable to that Securities-Based Loan Program are governed by the applicable Securities-Based Loan documents and other service agreements and are not included or described further in this brochure. You should review carefully the terms, conditions and any related risk disclosures for the Securities-Based Loan Program and understand that risks are heightened in the event you hold a concentrated position in your pledged Account or if your pledged Account makes up all, or substantially all, of your overall net worth or investable assets. Certain eligibility requirements must be met and documentation must be completed prior to obtaining Securities-Based Loans.

- Interest Rates for Securities-Based Loan Programs Differ. In certain circumstances, more than one Securities-Based Loan Program product may be available to you.
- Costs Are in Addition to Advisory Fees. The costs, including interest, associated with a Securities-Based Loan Program are not included in the Program Fee or Platform Fee and will result in additional compensation to us and our Financial Advisors. The interest charges on your Securities-Based Loan Program, combined with the Program Fee and Platform Fee, may exceed the income generated by your pledged Account assets and, as a result, the value of your Account may decrease. You are encouraged to consider carefully the total cost of taking out a Securities-Based Loan, and any additional compensation that PFS and your Financial Advisor will receive, when determining to take out and/or maintain a Securities-Based Loan against your Account assets.
- Financial Advisors Receive Compensation on Securities-Based Loans. In addition to receiving a portion of the Fee, Financial Advisors also receive compensation based on the outstanding loan balances of PCL and Securities-Based Loan Programs.
- We Have an Incentive to Recommend the Use of Securities-Based Loan Programs. Since PFS and your Financial Advisor are compensated through asset-based advisory fees paid on your Account, we benefit if you draw down on your Securities-Based Loan, which preserves asset-based advisory fee revenue and generates additional loan-related compensation, rather than sell securities or other investments in your Account, which would reduce the assets in your Account and our asset-based advisory fee revenue. This presents a conflict of interest for your Financial Advisor when addressing your liquidity needs. In addition, where a Securities-Based Loan is secured by both brokerage and advisory assets, a Financial Advisor will benefit if your brokerage assets are liquidated prior to or instead of your advisory assets because the Financial Advisor would be able to maintain advisory Account assets subject to the Program Fee and Platform Fee. We address these conflicts by disclosing them to you.
- Securities-Based Loan Programs May Not Be Suitable for You. There are other lending products that may be suitable for you and for which we and your Financial Advisor would receive different or no compensation. You are responsible for independently evaluating if a Securities-Based Loan is appropriate for your needs, if the lending terms are acceptable, and whether the Securities-Based Loan will have potential adverse tax or other consequences for you.
- There Are Limitations on the Use of Securities-Based Loan Proceeds. Except for margin accounts, where the loan proceeds can be used to purchase, carry, or trade securities, the proceeds of PCL may not be used to (a) purchase, carry, or trade securities or (b) reduce or retire any indebtedness incurred to purchase, carry, or trade securities. If your Account is used as collateral for a Securities-Based Loan, the Account is pledged to support the Securities-Based Loan and you are not permitted to withdraw funds or other assets from your Account unless sufficient amounts of collateral remain to continue supporting the Securities-Based Loan (as determined under the applicable Securities-Based Loan Program). Although you are required to satisfy such collateral requirements, you can terminate your advisory relationship with PFS, at which time the funds and assets in your account will be treated as a brokerage account and the collateral requirements for the Securities-Based Loan will continue to apply.

Additional Considerations Associated with Pledging Advisory Account Assets for Margin Loans and Securities-Based Loans

In addition to the risks mentioned above, if your Account assets are pledged or otherwise used as collateral for Margin Loans or Securities-Based Loans, the exercise of our rights and powers over your Account assets, including the disposition and sale of any and all assets pledged as collateral, may be contrary to your interests and the investment objective of your Account.

- There Are Collateral Maintenance Requirements. When you use margin to purchase securities or draw down on a Securities-Based Loan, your Account assets serve as collateral. We can increase our "house" maintenance requirements or call your Margin Loan or PCL at any time and for any reason and are not required to provide you with advance written notice. If your Account assets decline in value, so does the value of the collateral. If the required collateral is not maintained, you may need to deposit additional cash or securities as collateral or repay a partial or entire amount of the funds borrowed on short notice. You are not entitled to an extension of time on a margin call. The lender may refuse to fund any advance request due to insufficient collateral. Where the lender assigns different release rates to different asset types, you may be able to satisfy collateral maintenance requirements by selling securities with a low release rate and investing and/or holding the proceeds in assets that have a higher release rate for the loan.
- Liquidation of Securities in a Maintenance Call. Failure to promptly meet requests for additional collateral or repayment, or other circumstances including but not limited to a rapidly declining market, will cause the liquidation of some or all of the collateral supporting any Margin Loans or Securities-Based Loans in order to meet the maintenance requirements. We can sell your Account assets without contacting you. We are not required to notify you of a maintenance call. You will be responsible for any shortfall if your Account assets are insufficient to cover the maintenance deficiency. Even if we have notified you and provided a specific date by which you can meet a maintenance call, we can still take necessary steps to protect our financial interests, including immediately selling your Account assets without notice to you. You should understand that because your Account assets are collateral for the Margin Loans or Securities-Based Loans, in selling such assets, we will seek to protect or advance our interests (and/or those of our affiliated lender if you selected an affiliated Securities-Based Loan Program) over your interests. You should expect that our interests will not be aligned with --and will be adverse to --your interests when we sell assets during a maintenance call, and that we may sell assets that you desire to keep or sell them at prices that may be less than the value that we or you believe the assets are worth. You are not entitled to choose which Account assets are liquidated or sold to meet a maintenance call. If there are Account assets that you desire to own during the term of your Margin Loan or Securities-Based Loan, you should not pledge them as collateral. Depending on market circumstances, the prices obtained for your Account assets may be less favorable and may be less than the value that we or you believe the assets are worth. If a margin or maintenance call cannot be fully satisfied from your Account assets, you remain liable for the outstanding debt.
- Impact of Margin and Maintenance Calls on Management of Your Account. In a maintenance call, we might liquidate Account assets that you, your Financial Advisor, or your Manager otherwise would not sell, and that might not otherwise be in your best interests to sell, and you might not get to choose the assets that are liquidated. We or a third-party Manager will seek to manage your Account as agreed under your advisory Client Agreement and applicable Program Features and Fee Schedule, provided that, if a maintenance call takes place, you should expect that we or your Manager will not be able to manage your Account consistent with our or the Manager's overall strategy. In addition, in order to preserve sufficient collateral value to support the loan and avoid a maintenance call, depending on your leverage, a Financial Advisor may be inclined to invest your Account in more conservative investments, which may result in lower investment performance than more aggressive investments (depending on market conditions). We mitigate this risk by requiring and monitoring to ensure that your Account is managed consistent with your respective investment strategies.

No Legal or Tax Advice. PFS and your Financial Advisor do not provide legal or tax advice. You should consult with your own legal counsel and independent tax advisor before using securities as collateral for loans in order to fully understand the tax implications associated with pledging your Account as loan collateral and the potential liquidation of pledged assets.

Item 5 – Account Requirements and Types of Clients

Minimum Account Size

P-Summit and Summit II require a minimum of \$50,000 to open an account. Exceptions may be granted to this minimum at the discretion of PFS.

Types of Clients

Most PFS 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. PFS also manages assets held in corporate, pension,

401(k), defined benefit plan, and municipality accounts, among others.

Opening an Account

You are required to execute a written agreement with PFS specifying the particular advisory services in order to establish a client arrangement with PFS. In addition, the client will be required to establish a brokerage account through PFS and Pershing or Fidelity.

Termination of Services

The P-Summit and Summit II Account Program services continue in effect until terminated by either party by providing notice of termination to the other party.

Item 6 – Portfolio Manager Selection and Evaluation

PFS and its Investment Adviser Representatives act as the portfolio manager(s) for accounts in P-Summit and Summit II. For this service, we do not allow the use of portfolio managers that are not associated with PFS. In other words, the only portfolio managers selected for managing client assets for P-Summit and Summit II are Investment Adviser Representatives of PFS. Therefore, conflicts of interest are present versus other non-sponsored wrap fee programs that make available both affiliated and unaffiliated portfolio managers not present in our wrap fee program. Because our P-Summit and Summit II program does not provide for outside portfolio managers, we do not have procedures designed to select outside portfolio managers.

Tailored Advisory Services to Individual Needs of Clients

PFS's advisory services are always provided based on your individual needs. This means, for example, that when we provide asset management services, you are given the ability to impose restrictions on the accounts we manage for you, including specific investment selections and sectors. We work with you on a one-on-one basis through interviews and questionnaires to determine your investment objectives and suitability information.

We will not enter into an investment adviser relationship with a prospective client whose investment objectives may be considered incompatible with our investment philosophy or strategies or where the prospective client seeks to impose unduly restrictive investment guidelines.

Item 7 – Client Information Provided to Portfolio Managers

Only Investment Adviser Representatives of PFS serve as portfolio managers for P-Summit and Summit II. Our associated Investment Adviser Representatives are responsible for gathering all information provided by you. You are responsible for promptly contacting your Investment Adviser Representative to notify us of any changes to your financial situation that will impact or materially influence the way we manage your accounts. Since we do not use any outside portfolio managers, we do not share your information with any outside portfolio managers.

Item 8 - Client Contact with Portfolio Managers

Only Investment Adviser Representatives of PFS serve as portfolio managers for P-Summit and Summit II. There are no restrictions placed on your ability to contact and consult with their portfolio managers. You are encouraged to contact your Investment Adviser Representative whenever you have questions about the management of your account(s).

Item 9 - Additional Information

Disciplinary Information

There have been no material changes in the last fiscal year.

Other Financial Industry Activities and Affiliations

PFS, the Broker/Dealer. As mentioned in the “About Us” section in Item 4 of Part 2A of this Brochure, PFS is registered as an investment adviser and a broker/dealer. PFS's registration as a broker/dealer is material to PFS's advisory business because substantially all of PFS's managed accounts are held with PFS's broker/dealer. Depending upon the securities registrations held by each individual advisor, PFS's advisors offer a variety of securities and investments to their clients, including, but not limited to, mutual funds, Section 529 college savings plans, annuities, individual stocks and bonds, options, limited partnerships UITs, REITs, alternative investments, and a variety of other securities and insurance products approved for sale by PFS. Several of PFS's principal executive officers and management persons, including PFS's president and executive vice-presidents are each individually registered with PFS's broker/dealer. Further, PFS's relationship as a broker/dealer presents a variety of material conflicts of interest with its clients. PFS has separate, fully disclosed clearing arrangements with NFS and with Pershing.

Other PFS-Related Companies and Material Conflicts of Interest

In addition to its registration as an investment adviser, PFS is registered as a broker/dealer. PFS also has a related company that is licensed as an insurance agency under the name of Prospera Life & Annuity. Several PFS management persons, and a large majority of PFS's advisors, are registered with PFS's broker/dealer as registered representatives, and many are licensed insurance agents of Prospera Life & Annuity. As part of the investment advisory programs offered to clients, PFS, in its capacity as a broker/dealer, provides brokerage execution services to PFS advisory clients participating in PFS's P-Summit and Summit II programs. PFS and its advisors make securities and insurance recommendations to clients (or, in the case of discretionary services, make investment decisions for clients) regarding PFS's investment advisory programs and services. Where permitted by law, PFS and/or your advisor will receive transaction-based commissions, insurance commissions, mutual fund 12b-1 fees, distributor fees, service fees, due diligence fees, marketing reimbursements, revenue sharing, and other payments relating to your investment in or otherwise supporting PFS's or your advisor's activities regarding the securities and insurance products recommended, purchased, or held within your PFS advisory program account or pursuant to the advisory services provided. To the extent PFS is the investment adviser, sponsor, or other service provider to your investment advisory program, PFS receives compensation for its services. Clients should be aware that PFS's or your advisor's receipt of commissions, fees, payments, and other compensation presents a conflict of interest because PFS and your advisor have an incentive to make available or to recommend those products, programs, or services or make investment decisions regarding investments that provide additional compensation to PFS or your advisor over other investments that do not provide additional compensation to PFS or your advisor. As a matter of policy, PFS credits the mutual fund 12b-1 fees it receives in PFS P-Summit and Summit II managed accounts back to the accounts paying such 12b-1 fees. Please see the ADV Part 2 for more information on these conflicts.

PFS' Relationships with Other Investment Advisers

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

Third Party Investment Advisers

The P-Summit and Summit II Programs do not employ any Third-Party Investment Advisers.

Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

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

Our Code of Ethics is 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 PFS 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.

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

We will provide a copy of our Code of Ethics to any client or prospective client upon request.

PFS and its advisors often invest in the same securities that we recommend to clients. PFS and its advisors also recommend securities to, and buy and sell securities for, client accounts at or about the same time that we buy or sell the same securities for our own accounts. These activities create a conflict of interest between us and our clients. PFS policy prohibits "trading ahead" of clients' transactions to the detriment of clients. When PFS and its advisors are purchasing or selling securities for their own accounts, priority will be given to client transactions, or trades will be aggregated together to obtain an average execution price for the benefit of all parties. PFS has implemented surveillance and exception reports that are designed to identify and correct situations in which firm or advisor transactions are placed ahead of client transactions to the detriment of clients.

Review of Accounts

PFS advisors providing continuous and regular investment advice or investment supervisory services to clients will review client portfolios and contact clients at least annually, or 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 PFS's wrap fee programs may select one or more 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 investment advisor representative will automatically rebalance or reallocate the client's assets in a manner that is consistent with the objectives and risk tolerance of the client.

Client Referrals and Other Compensation

Other Compensation Received from Product Sponsors. PFS offers access to a broad selection of securities products, including mutual funds, variable insurance products, 529 college savings plans, direct participation programs, and nontraded alternative investments ("Sponsor Companies"). Sponsor Companies for many of the products we sell participate in activities that are designed to help facilitate the distribution of their products. These companies often pay PFS conference sponsorships and the travel, meals, and lodging expenses for PFS advisors to attend educational programs and due diligence meetings designed to help advisors be more knowledgeable about those companies' products, operations, and management. These companies also often provide other forms of compensation to PFS advisors relating to the sale and distribution of their products, including merchandise, gifts, prizes, and entertainment such as tickets to sporting events and leisure activities, as well as payment or reimbursement for the costs of business development expenses, client seminars, client appreciation events, software, and marketing materials designed to help promote the advisor's business.

The financial support, marketing support, participation in due diligence meetings and educational activities, and gifts and entertainment received by advisors that are paid for by the Sponsor Companies do, however, create a conflict of interest for PFS advisors who receive this compensation because they incentivize our advisors to focus more on or otherwise recommend or promote the products of those Sponsor Companies that provide this compensation to the advisor over those that do not.

Other Payments to PFS Advisers. In addition to receiving asset-based fees in their capacity as an investment adviser or solicitor, PFS advisors receive reimbursements or marketing allowances for marketing expenses and business development costs they incur. In addition, advisors receive invitations to conferences and meetings that are sponsored by third-party firms that offer managed account or advisory programs or services to the advisor. Portfolio strategists, investment managers, and product manufacturers typically contribute to the cost of the conferences and meetings, are identified as a sponsor of the conference or meeting, and often have the opportunity to promote their products, programs, and services directly to the financial advisor. Additionally, the advisor's travel-related costs and expenses, meals, and entertainment are usually paid for or subsidized by the firms. These payments to PFS advisors present a conflict of interest because they provide a financial incentive for advisors to recommend clients use a particular managed account program or advisory service that offers

these payments and opportunities to the advisor over other managed account or advisory programs that do not offer such payments or opportunities to the advisor.

PFS offers your advisor one or more forms of financial benefits based on your advisor's total Assets Under Management (AUM) held at PFS or in PFS's own P-Summit and Summit II programs or financial assistance for transitioning from another firm to PFS. The types of financial benefits that your advisor may receive from PFS include, but may not be limited to, forgivable or unforgivable loans, enhanced payouts, and discounts or waivers on transaction, platform, and account fees; technology fees; research package fees; financial planning software fees; administrative fees; brokerage account fees; account transfer fees; licensing and insurance costs; and the cost of attending conferences and events. The enhanced payouts, discounts, and other forms of financial benefits that your advisor may have the opportunity to receive from PFS provide a financial incentive for your advisor to select PFS as broker/dealer for your accounts over other broker/dealers from which they may not receive similar financial benefits or to use certain PFS P-Summit and Summit II programs over other programs available through PFS. Clients are urged to read and consider the contents of this Brochure carefully and to inquire about PFS's or their advisor's various sources of compensation and conflicts of interest in making a fair and reasonable assessment of the fees and charges clients will pay for the services rendered by PFS and their advisor. Further information about PFS's and your advisor's sources of compensation and conflicts of interest is described in this Brochure.

Payments to PFS. Consistent with prudent product approval practices, PFS conducts or causes to be conducted a due diligence analysis of Sponsor Companies prior to making them available to the public through its advisors. PFS receives due diligence fees, distribution allowances and other payments from certain Sponsor Companies. These additional payments are paid to and retained by PFS, and none of these additional payments are paid to or shared with any PFS advisor. Even though these payments are not shared with your PFS advisor, the receipt of these payments from Sponsor Companies by PFS creates a conflict of interest for clients because PFS may choose to make available to clients those Sponsor Companies that provide these payments to PFS over those Sponsor Companies that do not make such payments to PFS.

As also discussed elsewhere in this Brochure, PFS uses Pershing for P-Summit and NFS for Summit II managed accounts. PFS's business relationship with Pershing provides PFS considerable revenue-sharing benefits. In particular, PFS receives substantial revenue-sharing payments from Pershing based on client assets held in Pershing FDIC cash sweep balances.

Not all investment advisers that are dually registered as broker/dealers or that have affiliated broker/dealers require their clients to use the adviser's related broker/dealer to execute transactions. Although PFS is often able to obtain price improvement through its trade executions with Pershing and NFS that it believes is beneficial to its clients, PFS's clearing relationships with Pershing and NFS provides PFS's broker/dealer with substantial economic benefits by using itself as the broker/dealer and Pershing and NFS as the clearing firm for P-Summit and Summit II accounts rather than an unaffiliated broker/dealer or other clearing broker/dealer.

For example, PFS adds a markup to the transaction costs and certain other brokerage account charges and fees that are assessed to P-Summit client accounts through Pershing. This program along with the Pershing FDIC cash balance program revenue sharing creates substantial financial benefits for PFS as discussed in Item 12 in Part 2A of this Brochure. This additional compensation received by PFS in its broker/dealer capacity creates a significant conflict of interest with PFS's clients because PFS has a substantial economic incentive to use Pershing as its clearing firm for trade execution and custody over other firms that do not or would not revenue share with PFS. Additionally, by using itself as the broker/dealer for P-Summit and Summit II accounts, PFS may be unable to achieve the most favorable execution for client transactions, which may cost clients more money. Clients are urged to read and consider the contents of this Brochure carefully and to inquire about PFS's and the advisor's various sources of compensation and conflicts of interest in making a fair and reasonable assessment of the fees and charges clients will pay for the services rendered by PFS and their advisor.

Please read the disclosure in this ADV Part 2A concerning the Summit II no transaction fee funds (NTF). Although NTF funds do not assess transaction charges, which would be assessed after 40 annual trades, most NTF funds have higher internal expenses than funds that do not participate in an NTF program. These higher internal fund expenses are assessed to investors who purchase or hold NTF funds. Depending upon the frequency of trading and hold periods, NTF funds may cost you more, or may cost PFS or your PFS advisor less, than mutual funds that assess transaction charges but have lower internal expenses. In addition, the higher internal expenses charged to clients who

hold NTF funds will adversely affect the long-term performance of their account when compared to share classes of the same fund that assess lower internal expenses.

For those PFS advisory programs that assess transaction charges to clients or to PFS or the advisor, a conflict of interest exists because PFS and your advisor have a financial incentive to recommend or select NTF funds that do not assess transaction charges but cost you more in internal expenses than funds that do assess transaction charges but cost you less in internal expenses. In addition to reading this Brochure carefully, clients are urged to inquire whether lower-cost share classes are available and/or appropriate for their account in consideration of their expected investment holding periods, amounts invested, and anticipated trading frequency. Further information regarding fees and charges assessed by a mutual fund is available in the appropriate mutual fund prospectus.

This program and the Pershing FDIC cash balance program create substantial financial benefits for PFS, Pershing and NFS. Please see Item 12 of Part 2A of this Brochure for a detailed description of the compensation and associated conflicts that will apply to clients who participate in the Program.

Nonpurpose Loan Program. PFS offers a nonpurpose loan ("NPL") program that enables clients to collateralize certain accounts to obtain secured loans through Pershing, NFS or banking institutions that participate in the program. PFS receives third-party compensation from program participants based on the amount of the outstanding loan. This compensation to PFS varies; therefore, PFS can earn more or less depending on the program participant selected by the client. This compensation is a conflict of interest to PFS since PFS has a financial incentive for the client to select a program participant that pays PFS more. PFS does not share this compensation with its advisors; therefore, an advisor does not have a financial incentive if one program participant is selected over another. Clients are not required to use the program participants in PFS's NPL program and can work directly with other banks to negotiate loan terms or obtain other financing arrangement.

PFS as Solicitor. PFS and your advisor may serve as solicitors for a variety of third-party investment advisers with respect to some or all of your assets. In such cases, PFS 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 PFS and the advisor a percentage of the advisory fee the third-party investment adviser charges you. In some cases, these investment advisers will increase the advisory fee you would otherwise pay to the investment adviser if you engaged them directly. You will receive a written disclosure document that includes, among other things, a description of the compensation paid or to be paid to PFS and your advisor as a solicitor and the amount, if any, that you will be charged in addition to the advisory fee you would have otherwise paid to the investment adviser.

PFS and your advisor have a conflict of interest to refer your advisory business to those third-party investment advisers that pay referral fees to PFS and your advisor rather than to those investment advisers that do not make such payments or to those investment advisers that pay higher referral fees to PFS and your advisor rather than to those who compensate PFS and your advisor lesser referral fees.

In some cases, PFS and/or your PFS advisor receive training and educational support, marketing support, enhanced service, invitations to attend conferences or meetings, or some other economic benefit that is in addition to our 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. PFS and your advisor have a conflict of interest to favor referring your advisory business to those third-party investment advisers that provide such additional compensation over those investment advisers that do not.

PFS' Use of Solicitors. If your advisory account is referred by a solicitor to PFS or your advisor, PFS 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. PFS will not charge a client who is referred to PFS by a solicitor any amount for the cost of obtaining the client that is in addition to the fee normally charged by PFS 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, has a financial incentive to recommend one or more of PFS's wrap fee programs over other programs or services, including non-advisory programs and services, that may be available to a client for which the solicitor would not receive referral compensation.

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 the solicitor is affiliated with

or related to PFS. Solicitors are required to provide prospective clients with a current copy of PFS's Form ADV Brochure no later than the date on which the client enters into an advisory relationship with PFS and the advisor.

Financial Information

PFS does not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance. Therefore, we are not required to include a balance sheet for the most recent fiscal year. We are not subject to a financial condition that is reasonably likely to impair our ability to meet contractual commitments to clients. Finally, PFS has not been the subject of a bankruptcy petition at any time.