



# Wedbush Securities Inc. Part 2A Appendix 1 of Form ADV Wrap Fee Program Brochure

September 30, 2020

<https://www.wedbush.com/>

1000 Wilshire Blvd. Suite 900  
Los Angeles, CA 90017-2457

This Part 2A Appendix 1 of Form ADV (the “Wrap Fee Program Brochure”) provides information about the qualifications and business practices of Wedbush Securities Inc. (“WS” or the “Adviser”). If you have any questions about the contents of this brochure, please contact us at (213) 688-8000. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

Additional information about Wedbush Securities Inc. is also available on the SEC’s website at: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2. Material Changes**

There have been no material changes to the Wrap Fee Program Brochure since our last annual update on September 30, 2019.

### Item 3. Table of Contents

Item 2. Material Changes .....	3
Item 3. Table of Contents.....	4
Item 4. Services, Fees and Compensation .....	5
Item 5. Account Requirements and Types of Clients .....	19
Item 6. Portfolio Manager Selection and Evaluation.....	19
Item 7. Client Information Provided to Portfolio Managers.....	23
Item 8. Client Contact with Portfolio Managers.....	23
Item 9. Additional Information .....	23

## Item 4. Services, Fees and Compensation

### Wedbush Securities' Advisory Services

WS was originally founded in 1955 by its current President, Edward W. Wedbush, as Wedbush & Company. Through the acquisitions of Noble, Cooke & Co. (1969), William R. Staats Co., Inc. (1975), and Morgan, Olmstead, Kennedy & Gardner (1988), as well as internal growth, WS continues to expand on its rich heritage by introducing innovative products and providing financial and investment services to individuals, institutions and issuing clients. Headquartered in Los Angeles, California, with over 100 offices, WS is the largest holding of parent company Wedbush Capital. WS provides innovative financial solutions through our Wealth Management, Capital Markets, Advance Client Services, and Prime Services divisions. WS is a broker dealer and investment adviser registered with the Securities and Exchange Commission (SEC).

Through its Asset Management division, WS provides investment advice and management services on discretionary and non-discretionary basis to institutional and individual clients. This brochure provides description of its wrap fee program. A wrap fee is an all-inclusive fee assessed annually and typically charged quarterly to cover investment advice, execution, clearing, settlement services, custody of assets, and administrative services. Additionally, WS manages a non-wrap fee program, Discretionary Managed Transactional Account ("DMT") program, and offers Financial Planning services to its clients. A description of the DMT program and Financial Planning services is disclosed in WS' Form ADV Part 2A.

### ASSETS UNDER MANAGEMENT

As of June 30, 2020, WS had assets under management of \$2,353,207,645.

### ADVISORY WRAP FEE PROGRAMS

There are four different programs under the wrap fee arrangement: *Managed Account Program*, *Discretionary Advisory Account Program*, *Non-Discretionary Advisory Account Program*, and *Strategist Advisory Account Program*.

#### *Managed Account Program*

- Managed Model Account (MMA)
- Separately Managed Account (SMA)
- Unified Managed Account (UMA)
- Independent Manager Account (IMA)
- Other Wrap Program Arrangements

#### *Discretionary Advisory Account Program*

- Discretionary Managed Assets (DMA)
- Discretionary Managed Account – Independent Contractor (DMI-IC)

#### *Non-Discretionary Advisory Account Program*

- Self-Directed Investment Advisory Account (SDI)
- Self-Directed Investment Advisory Account – Independent Contractor (SDI-IC)

#### *Strategist Advisory Account Program (MF/ETF)*

- Portfolios constructed of mutual funds and/or ETFs provided by Independent or Affiliated Adviser Firms

#### Managed Account Programs

##### Managed Model Account (MMA)

The Managed Model Account (MMA) program is WS' dedicated separate account management service designed to deliver long-term investment solutions to institutional and private clients. The MMA program is administered by WS' division, Wedbush Asset Management (WAM). The services provided by WAM may include performing due diligence on investment managers, monitoring investment managers for performance, style consistency, and organizational stability. WS provides trade execution, custodial services, trade confirmations, and periodic client account statements.

##### Separately Managed Account (SMA)

The Separately Managed Account (SMA) program is WS' dedicated separate account management service designed to deliver customized long-term investment solutions to institutional and private clients. The SMA program is administered by WS' division, Wedbush Asset Management (WAM). The services provided by WAM may include performing due diligence on investment managers, monitoring investment managers for performance, style consistency, and organizational stability. WS provides trade execution, custodial services, trade confirmations, and periodic client account statements. This program allows the third-party manager to execute investment orders directly in the client account.

##### Unified Managed Account (UMA)

The Unified Managed Account (UMA) program allows multiple third-party MMA strategies in a single WS' account. The UMA program is administered by WS' division, Wedbush Asset Management (WAM). The services provided by WAM may include performing due diligence on investment managers, monitoring investment managers for performance, style consistency, and organizational stability. WS provides trade execution, custodial services, trade confirmations, and periodic client account statements.

##### Independent Manager Account (IMA)

Under this program, clients designate independent portfolio managers to manage their assets on a discretionary basis. Clients evaluate and select investment managers based on an independent

evaluation of the money manager's disclosure documents and other information furnished by the manager. WS does not perform any due diligence on the managers in the IMA platform. WS relies upon the investment managers to provide accurate information, including performance data, and does not independently verify the accuracy of information provided. Transactions for IMA accounts are generally effected through or with WS.

#### Other Wrap Program Arrangements

Under this arrangement, clients designate an outside custodian and appoint a money manager to manage their clients' assets held by that custodian on a discretionary basis. Unlike the MMA, SMA, and UMA programs, WS does not provide custodial services in this instance. WS relies upon the investment managers to provide accurate information, including performance data, and does not independently verify the accuracy of information provided.

#### Discretionary Advisory Account Programs

WS' Discretionary Advisory Account program is designed to serve the needs of institutional and individual clients. WS Financial Advisors manage and direct appropriate investment and reinvestment of the assets in client accounts consistent with the client's investment objective and risk profiles. The types of programs include Discretionary Managed Assets (DMA) and Discretionary Managed Account – Independent Contractor (DMI-IC) program.

#### Non-Discretionary Advisory Account Programs

Self-Directed Investment Advisory account is a *non-discretionary program* in which the client has the sole authority to purchase and/or sell securities. The SDI program will assess clients an annual fee, charged in quarterly installments, in lieu of certain "per transaction" execution, custodial costs, and commissions. SDI is designed for investors who regularly make investment transactions in their portfolio and not for persons primarily interested in purchasing money market or mutual funds or in holding inactively traded securities. The types of programs include Self-Directed Investment Advisory Accounts (SDI) and the Self-Directed Investment Advisory Accounts – Independent Contractor (SDI-IC).

#### Strategist Advisory Account Programs

Clients invested in the Strategist Advisory Account Program have access to portfolios constructed of mutual funds and/or ETF portfolios provided by Independent or Affiliated Adviser firms that are allocated to a single account. WS acts as overlay manager and with discretion to determine the specific portfolios to be made available for the Strategist Program, as well as to buy and sell securities, adjust allocations, and rebalance client accounts. The mutual funds and/or ETFs available in the Strategist program are part of the Independent or Affiliated Adviser firm's mutual fund or ETF recommended List, as applicable, which are limited to load-waived or no-load shares of such eligible funds. Independent Adviser firm reviews their choices on an ongoing basis and adjusts accounts when an investment held in a Portfolio is no longer recommended and/or they are advised that a different investment represents a better investment opportunity for the portfolio.

Independent Advisory firm considers many factors in determining an appropriate diversified allocation model for each client, including the client's account inception value, risk tolerance, and investment objectives generated from the risk tolerance questionnaire.

## Fees and Compensation

### Managed Account Program

Managed Model Account (MMA), Separately Managed Account (SMA), Unified Managed Account (UMA)

WS' fee schedule, as set forth below, is a sliding scale based on the size of the client assets under management. The fees charged for participation in a Managed Account Program may be higher than if the client were to purchase the individual securities without participation in the managed program. The fees listed in the schedule below are negotiable but will typically not exceed 3% per year. WS deducts management fees from client accounts quarterly, in advance, retains its portion of the fees, and forwards the appropriate portion of these fees (pre-negotiated with the underlying investment manager based on assets under management) to the investment manager. The management fee is typically 50 basis points but can be higher or lower based on manager requirements and investment category (i.e., equity, fixed income, etc.). Of the remaining wrap fee, your Financial Advisor will generally receive up to 50% (and up to 90% for Financial Advisors on the Independent Contractor platform). The accounts are subject to a minimum quarterly fee of \$250 (\$1,000 annually). Account terminations result in a pro-rata return of fees billed but not yet incurred. Financial Advisors on the Independent Contractor platform may assess a transactional charge plus an activity assessment charge per trade in addition to the wrap fee. The transactional charge plus the activity assessment charge may be avoided by engaging a WS Financial Advisor who is not on the Independent Contractor platform. For those Financial Advisors on the Independent Contractor platform who absorb these charges rather than assessing these charges to clients, the Financial Advisor will have a potential conflict of interest in that they have an incentive to place fewer trades in the client's account in order to avoid these costs and thereby increase their own compensation.

Typical Client Fee Schedule is as follows:

<u>Account Size</u>	<u>Annualized Overall Fees (% of assets)</u>
Up to \$250,000	3.00%
\$250,001 to \$500,000	2.80%
\$500,001 to \$1,000,000	2.50%
\$1,000,001 to \$3,000,000	1.90%
\$3,000,001 to \$5,000,000	1.60%
\$5,000,001 and above	Negotiable

## Independently Managed Assets (IMA)

The following table is the fee schedule for the Independently Managed Assets (IMA). In exchange for services provided under this program, clients will pay a quarterly fee based on the amount of assets held in the account, which covers investment advisory services provided to the account by the independent portfolio manager(s), and to WS for custodial services and trade execution through or with WS. The fees charged for participation in IMA may be higher than if the client were to purchase the individual securities without participation in IMA. There is no termination fee, and terminations result in a pro-rata return of fees billed but not yet incurred. Generally, the fees assessed by WS are negotiable. Fees charged by WS for their services would be described and disclosed in the client's Managed Assets Client Agreement (the "account agreement") but *typically* would not exceed 3%. The portfolio manager will *generally* receive up to 50 basis points of the wrap fees but can be higher or lower based on manager requirements and investment category (i.e., equity, fixed income, etc.). Of the remaining wrap fee, your Financial Advisor will generally receive up to 50% (and up to 90% for Financial Advisors on the Independent Contractor platform). Fees charged by the independent money managers for their services would be described and disclosed separately in the money manager's client agreement and disclosure statement. Financial Advisors on the Independent Contractor platform may assess a transactional charge plus an activity assessment charge per trade in addition to the wrap fee. The transactional charge plus the activity assessment charge may be avoided by engaging a WS Financial Advisor who is not on the Independent Contractor platform. For those Financial Advisors on the Independent Contractor platform who absorb these charges rather than assessing these charges to clients, the Financial Advisor will have a potential conflict of interest in that they have an incentive to place fewer trades in the client's account in order to avoid these costs and thereby increase their own compensation.

Typical Client Fee Schedule is as follows:

<u>Account Size</u>	<u>Annualized Overall Fees (% of assets)</u>
Up to \$250,000	3.00%
\$250,001 to \$500,000	2.80%
\$500,001 to \$1,000,000	2.50%
\$1,000,001 to \$3,000,000	1.90%
\$3,000,001 to \$5,000,000	1.60%
\$5,000,001 and above	Negotiable

## Other Wrap Program Arrangements

The fees charged for participation in the "other wrap program" may be higher than if the client were to purchase the individual securities without participation in the "other wrap program". In general, quarterly fees are payable to the independent money managers, the outside custodian (as applicable), and WS for advisory services. Generally, the fees assessed by WS are negotiable and WS does not charge a termination fee. Fees charged by WS as sponsor for and manager of



advisory services would be described and disclosed in the account agreement but typically would not exceed 2%. The portfolio manager will generally receive up to 50 basis points of the wrap fees but can be higher or lower based on manager requirements and investment category (i.e., equity, fixed income, etc.). Of the remaining wrap fee, your Financial Advisor will generally receive up to 50% (and up to 90% for Financial Advisors on the Independent Contractor platform). Fees charged by outside money managers for their services would be separately described and disclosed in the money manager's client agreement and disclosure statement. Custodial fees and any other service fees charged by the outside custodian are contained in the custody agreement between the client and the outside custodian. Financial Advisors on the Independent Contractor platform may assess a transactional charge plus an activity assessment charge per trade in addition to the wrap fee. The transactional charge plus the activity assessment charge may be avoided by engaging a WS Financial Advisor who is not on the Independent Contractor platform. For those Financial Advisors on the Independent Contractor platform who absorb these charges rather than assessing these charges to clients, the Financial Advisor will have a potential conflict of interest in that they have an incentive to place fewer trades in the client's account in order to avoid these costs and thereby increase their own compensation.

#### Discretionary Advisory Account Program

##### Discretionary Managed Assets (DMA)

Full service asset fee, which is based on the amount of assets under management by WS, covers investment advisory discretionary services provided by WS Financial Advisor and commissions and markups charged for securities transactions effected through or with WS, provided that the number of transactions does not exceed certain amount as set forth in the account agreement. Clients will pay commissions, markups, markdowns or commission equivalent, at a discounted rate, for any transaction in excess of the maximum annual trades. The minimum amount necessary to open the account is \$100,000 in assets; however, the Financial Advisor can request an exception to accept lower minimum account size. The fees charged for participation in DMA may be higher than if the client were to purchase the individual securities without participation in DMA. Fees are negotiable and billed in advance on a quarterly basis. The accounts are subject to a minimum quarterly fee of \$250 (\$1,000 annually). There is no termination fee, and terminations result in a pro-rata return of fees billed but not yet incurred.

Typical Client Fee Schedule is as follows:

<u>Account Size</u>	<u>Annualized Overall Fees (% of assets)</u>
Up to \$250,000	3.00%
\$250,001 to \$500,000	2.80%
\$500,001 to \$1,000,000	2.50%
\$1,000,001 to \$3,000,000	1.90%
\$3,000,001 to \$5,000,000	1.60%
\$5,000,001 and above	Negotiable

## Discretionary Managed Account – Independent Contractor (DMI-IC)

Full service asset fee, which is based on the amount of assets under management, covers investment advisory discretionary services provided by Independent Contractor Financial Advisors and commissions and markups charged for securities transactions effected through or with WS, provided that the number of transactions does not exceed certain amount as set forth in the account agreement. Clients will pay commissions, markups, markdowns or commission equivalent, at a discounted rate, for any transaction in excess of the maximum annual trades. The minimum amount necessary to open the account is \$25,000 in assets; however, the Financial Advisor can request an exception to accept lower minimum account size. The fees charged for participation in DMI-IC may be higher than if the client were to purchase the individual securities without participation in DMI-IC. Fees are negotiable and billed in advance on a quarterly basis. The accounts are subject to a minimum quarterly fee of \$62.50 (\$250 annually). There is no termination fee, and terminations result in a pro-rata return of fees billed but not yet incurred.

In addition to the wrap fee, Financial Advisors on the DMI-IC platform typically assess (1) transactional charges of \$14.00 per trade and (2) an activity assessment fee of \$5.95 per trade. These costs are deducted from the account based upon the frequency stated above. The transactional charge plus the activity assessment charge may be avoided by engaging a WS Financial Advisor who is not on the Independent Contractor platform. For those Financial Advisors on the Independent Contractor platform who absorb these charges rather than assessing these charges to clients, the Financial Advisor will have a potential conflict of interest in that they have an incentive to place fewer trades in the client's account in order to avoid these costs and thereby increase their own compensation.

Further details with respect to the specific fees and additional costs charged by WS would be described and disclosed in the account agreement.

Typical Client Fee Schedule is as follows:

<u>Account Size</u>	<u>Annualized Overall Fees (% of assets)</u>
Up to \$250,000	3.00%
\$250,001 to \$500,000	2.80%
\$500,001 to \$1,000,000	2.50%
\$1,000,001 to \$3,000,000	1.90%
\$3,000,001 to \$5,000,000	1.60%
\$5,000,001 and above	Negotiable

## Non-Discretionary Advisory Account Program

Self-Directed Investment Advisory Account (SDI)

The SDI fee covers an annual maximum number of trades on eligible assets without brokerage commissions for all WS trades directed by the client in client's account as set forth in the account agreement and below. If client directs trades in excess of the maximum annual trades, such additional trades will be charged a commission at a 30% discount to WS' standard commission schedule. The fees charged for participation in SDI may be higher than if the client were to purchase the individual securities without participation in SDI. Fees are negotiable and billed in advance on a quarterly basis. There is no termination fee, and terminations result in a pro-rata return of fees billed but not yet incurred.

### SDI Fee

Should the SDI Account Value be less than the required minimum opening value on any Payment Date as the result of withdrawals by the client, the minimum charge (agreed upon fee percentage x \$100,000) shall apply. Should the SDI Account Value be less than the required Minimum Account Size on any Payment Date solely due to market fluctuations, the SDI Fee shall be the SDI Account Value x the agreed upon fee percentage. In all instances, the client understands and agrees that WS shall be entitled to a minimum quarterly fee of \$250 (\$1,000 annually) per account.

Typical Client Fee Schedule is as follows:

<u>Account Size</u>	<u>Annualized Overall Fees (% of assets)</u>
Up to \$250,000	3.00%
\$250,001 to \$500,000	2.80%
\$500,001 to \$1,000,000	2.50%
\$1,000,001 to \$3,000,000	1.90%
\$3,000,001 to \$5,000,000	1.60%
\$5,000,001 and above	Negotiable

### Maximum Annual Trades

The SDI Fee covers an annual maximum number of trades on Eligible Assets without brokerage commission for all WS trades directed by the client in client's Account ("Maximum Annual Trades"). For purposes of determining Maximum Annual Trades, "trade" means any purchase or sale of a security. The initial Maximum Annual Trades are based on the SDI Account Value (which includes cash and money market funds) as of the Opening Day. Thereafter, the Maximum Annual Trades will be re-established annually, based on the SDI Account Value on each annual anniversary of the Opening Day, or revised immediately upward to include Eligible Assets received into the SDI. Any unused portion of Maximum Annual Trades will not be carried over to the following anniversary year. The Maximum Annual Trades per SDI Account Value are as shown below.

If client directs trades in excess of the Maximum Annual Trades, such additional trades will be charged a commission at a 30% discount to WS' standard commission schedule.

<u>SDI Account Value</u>	<u>Maximum Annual Trades</u>
\$100,000 to \$249,999	50
\$250,000 to \$499,999	60
\$500,000 to \$999,999	70
\$1,000,000 to \$2,999,999	100
\$3,000,000 to \$4,999,999	120
\$5,000,000 and above	Negotiable

### Self-Directed Investment Advisory Accounts – Independent Contractor (SDI-IC)

Self-Directed Investment Advisory account is a *non-discretionary program* offered by Independent Contractor Financial Advisors in which the client has the sole authority to purchase and/or sell securities. The SDI-IC program will assess clients an annual fee, charged in quarterly installments, in lieu of certain “per transaction” execution, custodial costs to the extent client assets are maintained at an outside custodian, and commissions. The SDI-IC is designed for investors who regularly make investment transactions in their portfolio and not for persons primarily interested in purchasing money market or mutual funds or in holding inactively traded securities.

Clients will pay an annual fee based on the value of the amount of eligible assets held in the account. The minimum amount necessary to open the SDI-IC account is \$25,000 in assets; however, the independent contractor Financial Advisor can request an exception to accept lower minimum account size. The fees charged for participation in SDI-IC may be higher than if the client were to purchase the individual securities without participation in SDI-IC. Fees are negotiable and billed in advance on a quarterly basis. There is no termination fee, and terminations result in a pro-rata return of fees billed but not yet incurred.

#### SDI-IC Fee

Should the SDI-IC Account Value be less than the required minimum opening value on any Payment Date as the result of withdrawals by the client, the minimum charge (agreed upon fee percentage x \$25,000) shall apply. Should the SDI-IC Account Value be less than the required Minimum Account Size on any Payment Date solely due to market fluctuations, the SDI-IC Fee shall be the SDI-IC Account Value x the agreed upon fee percentage. In all instances, the client understands and agrees that WS shall be entitled to a minimum quarterly fee of \$125 (\$500 annually) per account.

Financial Advisors on the SDI-IC platform typically assess (1) transactional charges of \$14.00 per trade and (2) an activity assessment fee of \$5.95 per trade. These costs are deducted from the

account based upon the frequency stated above. The transactional charge plus the activity assessment charge may be avoided by engaging a WS Financial Advisor who is not on the Independent Contractor platform. For those Financial Advisors on the Independent Contractor platform who absorb these charges rather than assessing these charges to clients, the Financial Advisor will have a potential conflict of interest in that they have an incentive to place fewer trades in the client's account in order to avoid these costs and thereby increase their own compensation.

Further details with respect to the specific fees and additional costs charged by WS would be described and disclosed in the account agreement.

Typical Client Fee Schedule is as follows:

<u>Account Size</u>	<u>Annualized Overall Fees (% of assets)</u>
Up to \$250,000	3.00%
\$250,001 to \$500,000	2.80%
\$500,001 to \$1,000,000	2.50%
\$1,000,001 to \$3,000,000	1.90%
\$3,000,001 to \$5,000,000	1.60%
\$5,000,001 and above	Negotiable

#### Strategist Advisory Account Program (MF/ETF)

#### SEI Asset Management Program

Clients enrolled in the SEI Asset Management (SEI) Program have access to the discretionary portfolio management services of SEI Asset Management Corporation, an Independent Adviser. Financial Advisors will recommend, and clients will select, an asset allocation model managed by SEI, comprised of SEI's mutual funds, consistent with such client's specified investment objectives, risk tolerance, and overall asset allocation. SEI utilizes multiple institutional managers as advisers to the SEI mutual funds. SEI is responsible for fund selection for its models and rebalancing of accounts. SEI Trust Company (a subsidiary of SEI Asset Management Corporation) acts as the transfer agent and custodian for each client account that SEI manages on a discretionary basis. Fees for the SEI Asset Management Program and the underlying mutual funds are set by SEI and are not subject to WS' control.

#### Russell Strategy Program

The RUSSELL program, asset allocation and investment selection decisions are determined by Russell and implemented by WS. The RUSSELL models exclusively contain Russell mutual funds. Russell employs a "multimanager, multi-style" approach to investing whereby the assets of

Russell funds are allocated to different money managers who employ distinct investment strategies for the funds. Russell has the right to engage or terminate a money manager at any time. These money managers may or may not be affiliated with Russell Investment Management Company, an affiliate of Russell Investment Group.

For more information on the underlying funds in the RUSSELL models, clients should review the applicable Russell Fund prospectuses. Manager research is the core of Russell's investment process. Russell's manager research emphasizes both a qualitative (organization, ownership, people and investment process) and a quantitative (performance and investment profile) analysis to conduct comprehensive evaluations. Russell's ongoing due diligence includes performance and portfolio monitoring and monthly interaction with each manager. Russell also performs annual on-site due diligence visits by both Russell investment personnel and Russell compliance and legal personnel. Fees for the Russell Management Program and the underlying mutual funds are set by Russell Investment Management Company and are not subject to WS' control.

### Morningstar Wealth Builder Program

The Morningstar® Wealth Builder Asset Allocation Series offers broad and diversified market exposure to accounts as small as \$10,000. These portfolios span the risk spectrum and use the same asset allocation process as other offerings; their ETF approach can accommodate broker-dealers, RIAs, banks, and other providers looking to provide smaller clients with a fiduciary solution. Using passive ETFs, they actively manage asset class exposures in the Morningstar Wealth Builder Asset Allocation portfolios. They roll up security-level data to the asset-class level, weighing valuation, sentiment, and other inputs before holistically building portfolios. Their disciplined and principled approach to finding value builds risk management into every purchase.

### WAM Gateway and VisX Programs

The WAM Program is sub-advised by FDx Advisors Inc. and consists of portfolios of ETFs and mutual funds, fulfilling five investment objectives (each, with a taxable or non-taxable option) ranging from conservative to aggressive. The sub-advisor applies proprietary and vendor applications to help in the construction of mean variant optimized portfolios. Each portfolio is created utilizing a broad range of asset classes including international equity and fixed income asset classes, and US equity and fixed income asset classes, incorporating a blend of strategic asset allocation with tactical allocation strategies. Tactical allocation represents 0%-30% of the portfolio. Portfolios are reviewed periodically for allocation adjustments based on changing market conditions. Portfolios may include a taxable and/or non-taxable version although the general focus is on gross return and Registrant's sub-advisor FDx Advisor's Inc. does not generally take into account tax considerations. The selection of strategies for use in the WAM Program is based on FDx Advisors, Inc. manager research process. FDx Advisor's consulting team, research team, and investment committee play an important role focusing on review, discussion and approval of new products for the portfolios. FDx Advisors, Inc. seeks to maintain updated information on funds and ETFs through their due diligence efforts and process. FDx Advisors, Inc. seeks managers who maintain a consistent investment style while performing competitively versus an appropriate benchmark. Products selected for the Portfolios are reviewed at least quarterly. FDx Advisors also provides portfolios to other institutional clients besides

Registrant.

Allocation Solution

<u>Strategies</u>	<u>Equity Exposure Range</u>
Conservative	20% - 30%
Moderate	35% - 45%
Balanced	55% - 65%
Growth	70% - 80%
Aggressive Growth	80% - 90%

Strategist Advisory Account Program (MF/ETF) Fee

For WS' services provided to the account, client shall pay WS a fee based on the value of the assets in the account (Asset Based Fee), in accordance with the Asset Based Fee Structure, or based on such different rate as WS may subsequently declare to be its Asset Based Fee, in accordance with the account agreement. The maximum annual Asset Based Fee, payable in advance on a quarterly basis, is established according to the Asset Based Fee structure. The minimum asset amount necessary to open an Account is \$10,000 (Minimum Account Size). In all instances the client understands and agrees that WS shall be entitled to a minimum quarterly fee of \$62.50 (\$250 annually) per account. Fees are negotiable. There is no termination fee, and terminations result in a pro-rata return of fees billed but not yet incurred.

Full-service asset fee, which is based on the amount of assets under management by WS, covers investment advisory services provided by money managers under the Strategist Advisory Account Program (MF/ETF) fee. The minimum asset amount necessary to open an Account is \$10,000 (Minimum Account Size). In all instances the client understands and agrees that WS shall be entitled to a minimum quarterly fee of \$62.50 (\$250 annually) per account. Fees are negotiable. There is no termination fee, and terminations result in a pro-rata return of fees billed but not yet incurred.

Typical Asset Based Fee Structure (MF/ETF Accounts) is as follows:

<u>\$ Value of Assets</u>	<u>Maximum Effective Annualized</u> <u>%</u>
\$10,000 - \$25,000	2.50%
\$25,001 - \$50,000	2.00%
\$50,001 and above	Negotiable

Management and Administrative Fees (MF/ETF)

If an Independent or Affiliated Adviser firm manages or provides portfolios, a portion of the total Asset Based Fee is applicable to management fees to compensate such Independent or Affiliated Adviser firm for its services and strategy management. WS may have additional fees for the

administrative cost of overlay trading, operational and general processing of portfolio positions within each account. Management fees vary by strategist and/or portfolio (including based on whether it is a Manager-Traded or WS-Traded account), and are generally not negotiable and generally range as follows:

- Strategist Management Fee: 0% to 0.25%, depending on the portfolio and strategy management firm
- Administrative Fees: 0.10% to 0.25%, depending on the portfolio and strategy execution requirements

### **Disclosure on Financial Advisor's Conflict of Interest Relating to Brokerage and Advisory Accounts**

The wrap fees charged may be higher than if the client were to purchase the individual securities without participation in the advisory programs. A non-advisory brokerage account based on commissions instead of an advisory wrap fee based account could be used to effect few transactions in which case the amount of revenue earned by the firm and the Financial Advisor would be less than if a wrap fee were assessed on the account's asset base. This may pose a conflict of interest in that the Financial Advisor may have an incentive to recommend a wrap fee program instead of a brokerage account. In addition to the Financial Advisor, you should assess whether a wrap fee program is appropriate for you based on your investment strategy and the frequency in which transactions are effected by your Financial Advisor or Portfolio Manager.

### **Additional Compensation Received by the Financial Advisor and Wedbush Securities Inc.**

In addition to the wrap fee, you may be charged a mark-up, mark-down, or spreads on securities purchased or sold for your account. This may pose a conflict of interest in that it provides an incentive for the Financial Advisor to recommend those investments that result in higher compensation to the Financial Advisor and/or WS. The Financial Advisor and/or their respective supervisors periodically reviews accounts to determine that investments made in your account are in your best interest.

### **Mutual Fund Share Classes and 12b-1 Fees**

Financial Advisors seek to purchase or recommend share classes that are in the best interest of their clients, which may include mutual funds that charge 12b-1 fees that cover the mutual fund companies' distribution and shareholder services expenses. The recurring annual fees vary by share class but typically range from 0.25% to 1.00% and are included in the mutual fund's total annual fund operating expenses. The fees are deducted from the mutual fund's assets and paid to the fund's distributors or principal underwriters. WS, as a registered broker dealer, receives shareholder distribution fees from mutual fund companies under Rule 12b-1 of the Investment Company Act of 1940. This presents a conflict of interest in that it provides a financial incentive for the Financial Advisor to recommend those funds that charge their shareholders a higher 12b-1 fee. To address this conflict of interest, the 12b-1 fees received by WS, are rebated to the client accounts where an advisory fee is being assessed in the managed fee-based account.



Certain mutual funds may offer only one class of shares that charge 12b-1 fees, while other mutual funds may offer multiple share classes that are available for investment that do not charge 12b-1 fees such as institutional or advisory program share classes based upon certain eligibility and/or purchase requirements. A client who holds an institutional or advisory share class will usually pay a lower total annual fund operating expense over time than one who holds the same fund that charges a 12b-1 fee. Therefore, the 12b-1 fees will have a negative impact on investment performance.

Mutual funds often permit the conversion of shares from one class to another, subject to certain conditions as determined by the applicable fund. If a client contributes to, or holds mutual fund shares that charge 12b-1 fees in a managed fee based account, such shares will be converted, if feasible, into a lower cost class of shares of the same mutual fund that are available to WS Managed Account Program. A client's mutual fund share class may not be converted if, for example, there is no equivalent share class eligible for the client or the Managed Account Program or in other circumstances. In situations whereby a 12b-1 fee is being charged in a mutual fund and no eligible lower share class is available or the purchase requirements are not met, then the 12b-1 fees will be rebated to the client's account and will be available to the client as cash. Since the rebate is in the form of cash in the client account, this may have a negative impact on the performance of the mutual fund in the client account as compared to an investment in a lower cost institutional or advisory share class of the same mutual fund. Depending on the circumstances, though not always, a client could be subjected to higher expenses overall once the shares are converted to an Institutional or advisory program share class.

Clients should discuss the impact of a conversion of mutual fund shares with their Financial Advisor prior to contributing any mutual fund investments to a managed fee-based account. The specific amount of 12b-1 fees assessed is found in a fund's prospectus and will be provided to you upon request.

### **Mutual Fund Networking and Shareholder Servicing Fees**

Certain mutual funds pay fees to WS for the performance of administrative functions alleviating the mutual fund of the responsibility for the specific account servicing function taken on by WS or their providers. These networking and shareholder servicing fees are usually fixed dollar amounts or determined based on a percentage paid to WS from certain fund groups or their providers. If expressed as a percentage of invested client fund assets, networking and shareholder servicing fees can range from 0.02% up to but less than 0.30% annually on the value of invested fund holdings.

### **Important Information Regarding Wrap Fees**

The wrap fee for all the advisory programs – unless stated otherwise in the Fees and Compensation section of this brochure for certain advisory wrap fee programs – typically includes the investment advisory services, execution, custodial, administrative, platform\*, as well as transaction, activity assessment and exchange fees.

The wrap fee does not include commissions or other charges incurred due to transactions effected through a broker or dealer other than WS.

\*For accounts opened prior to 2015, the administrative and platform fees which can range from 0.05% to 0.25%, depending on the program, portfolio, and strategy execution requirements may be assessed separately from the wrap fee.

The Asset Based Fee will not be adjusted during any period for appreciation or depreciation in the value of the Account or for any deposits or withdrawals in the Account.

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

### **ACCOUNT REQUIREMENTS**

The minimum amount necessary to open an advisory account is typically \$100,000 in assets; however, the Financial Advisor can request an exception to accept lower minimum account size. The Discretionary Managed Account – Independent Contractor (DMI-IC) requires a \$25,000 minimum, and the Strategist Advisory Account Program requires a \$10,000 minimum. Accounts that fall below \$1,000 in assets will be closed and the Managed Assets Department will coordinate with the Financial Advisor to inform the client.

WS provides advisory services to individuals, high net worth clients, trusts, pension and profit sharing plans.

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

### **Managed Account Program (MMA, SMA, UMA and IMA)**

#### **Selection Criteria**

Portfolio managers under the Managed Accounts Program are reviewed and selected based on a set of criteria which may include performance, assets under management, investment philosophy, years in business, education and business background. However, under the IMA program, you – and not the Financial Advisor – designate the independent portfolio managers to manage your assets on a discretionary basis.

#### **Reviews of Portfolio Managers**

Portfolio managers are reviewed on an annual basis and on an as needed basis. Portfolio managers may be replaced for the program or for the client if it does not meet certain criteria which include those mentioned above. Performance information for portfolio managers are reviewed and compared to a relevant benchmark. Performance information may not be calculated on a uniform and consistent basis by the various portfolio managers. WS does not verify the accuracy of the performance information. Portfolio manager performance may or may not be based on the Global Investment Performance Standards (GIPS). The quarterly performance of your accounts is calculated quarterly and is time weighted. Performance results are calculated on

a total return basis inclusive of accrued dividends and income.

### **Selection of Portfolio Managers for Your Accounts**

Your Financial Advisor will assist you in selecting your portfolio managers for the Managed Accounts Program based on your responses to a set of criteria such as investment objectives, risk tolerance, liquidity needs and time horizon. Your Financial Advisor will help you select your portfolio managers and determine the asset allocation and investment style based on your financial situation and needs. Your Financial Advisor will receive a portion of the wrap fee in connection with the introduction of accounts and for his/her client-related services.

While WS may receive advice and other services from its affiliates and other related persons, none of WS' related persons act as portfolio managers with respect to any of the wrap fee programs.

### **Financial Advisors to Act as Portfolio Managers in the Discretionary Advisory Accounts Program (DMA, DMI-IC)**

Your Financial Advisor may act as a portfolio manager for your accounts under the Discretionary Advisory Accounts program (DMA and DMI-IC). If your Financial Advisor will manage your accounts on a discretionary basis, he/she must obtain approval from his or her Branch Office Manager and the Managed Assets Department. The approval will be based upon such criteria as a Financial Advisor's past experience managing client accounts, registrations (licensing), compliance records, and relevant certifications or other qualifications.

Your Financial Advisor will purchase or sell securities in your portfolio on a discretionary basis based on a set of criteria such as investment objectives, risk tolerance, liquidity needs and time horizon. Clients may inform the Financial Advisor to not invest in certain securities or types of securities or to invest only in certain securities or types of securities. Your Financial Advisor will receive a portion of the wrap fee for his/her advisory services.

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

WS does not charge performance-based fees with respect to the wrap fee programs.

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

For the Managed Accounts Program (MMA, SMA, UMA, and IMA), your portfolio manager for these programs employ methods of analysis that are described in each adviser's Disclosure Document. Each portfolio manager utilizes a variety of investment strategies based on your investment objectives, financial circumstances, risk tolerance, and financial needs. Such strategies typically include long term and short term purchases of securities.

Similarly, for the Discretionary Advisory Accounts Program (DMA and DMI-IC), your Financial Advisor employs a variety of investment strategies based on your investment objectives, financial

circumstances, risk tolerance, and financial needs. Such strategies typically include long term and short term purchase of securities.

Investing in securities involves risk of loss that you should be prepared to bear. You must understand that we do not guarantee any returns on any investments or investment strategies. Frequent trading can affect investment performance, particularly through increased brokerage and other transaction costs and taxes.

### **ETFs, Mutual Funds and Other Pooled Vehicles Risk**

In addition to all of the risks associated with investing in securities generally, ETFs, mutual funds and other pooled vehicles are subject to the risk that they may not effectively achieve the performance of the index, industry or other market(s) they are intended to track (if they seek such tracking), in addition to the risks that expenses reduce returns, that management is not successful at its stated program, that there are conflicts of interest, that the investment is illiquid or has low trading volume and that non-investment operations become subject to error and mismanagement, resulting in losses. These securities may also have exposure to derivative instruments, which may not perform as expected, along with other investment risks described in their prospectuses, statements of information and other disclosure documents.

### **High Levels of Trading Risk**

Investment strategies such as portfolio rebalancing can lead to high levels of trading. High levels of trading could result in (a) bid-ask spread expense; (b) trade executions that may occur at prices beyond the bid-ask spread (if quantity demanded exceeds quantity available at the bid or ask); (c) trading that may adversely move prices, such that subsequent transactions occur at worse prices; (d) trading that may disqualify some dividends from qualified dividend treatment; (e) unfulfilled orders or portfolio drift, in the event that markets are disorderly or trading halts altogether and (f) unforeseen trading errors.

### **Investment Style Risk**

Different investment styles tend to shift in and out of favor depending upon market and economic conditions and investor sentiment. Portfolios will outperform or underperform other portfolios that invest in similar asset classes but employ different investment styles.

### **Management Risk**

A portfolio is subject to management risk, which is the risk that the investment process, techniques and analyses applied will not produce the desired results, and those securities or other financial instruments selected for a portfolio has in the past and likely will in the future result in returns that are inconsistent with the portfolio's investment objective. In addition, legislative, regulatory, or tax developments will affect the investment techniques or opportunities, available in connection with managing the portfolio and has in the past and likely will in the future also adversely affect the ability of the portfolio to achieve its investment objective.

## **Underlying Fund Risk**

A portfolio investing in funds (underlying funds), includes, but is not limited to the performance of the underlying fund and investment risk of the underlying funds' investment, as the underlying funds could involve highly speculative investment techniques, including extremely high leverage, highly concentrated portfolios, workouts and startups, control positions and illiquid investments. In particular, the risks for a portfolio operating under a fund of funds structure include, but are not limited to, the following: the performance of the portfolio will depend on the performance of the underlying funds' investments; there can be no assurance that a multi-manager approach will be successful or diversified, or that the collective performance of underlying fund investments will be profitable; one or more underlying funds will be allocated a relatively large percentage of the portfolio's assets; there can be limited information about or influence regarding the activities of the underlying fund's investment advisors and underlying funds, like any other asset, will be subject to trading restrictions or liquidity risk. Portfolio investments in underlying funds will generally be charged the proportionate share of the expenses of investing in the underlying fund(s).

## **Technology and Cyber Security Risks**

WS and our clients rely heavily on telecommunication, information technology and other operational systems, whether WS or those of others. These systems may fail to operate properly or become disabled because of events or circumstances wholly or partly beyond our or their control. Despite the implementation of a variety of risk management and security measures, our information technology, and other systems, and those of others, could be subject to physical or electronic breaches resulting in a failure to maintain the security, availability, integrity, and confidentiality of data assets. Technology failures or cyber security breaches, deliberate or unintentional, could delay or disrupt our ability to do business or service our clients, harm our reputation, result in a violation of applicable privacy and other laws, require additional compliance costs, subject us to regulatory inquiries or proceeding and other claims, lead to a loss of clients and revenues or financial loss to our clients or otherwise adversely affect our business.

## **Business, Terrorism, and Catastrophe Risks**

These are the risks of loss that may be incurred, indirectly, due to the occurrence of various events, including hurricanes, earthquakes and other natural disasters, terrorism, and other catastrophic events such as a pandemic. These catastrophic risks of loss can be substantial and could have a material adverse effect on WS' business and on your portfolios.

## **Voting Client Securities**

WS does not vote client proxies. Although WS may provide investment advisory services relative to client investment assets, clients maintain exclusive responsibility for:

- 1) Directing the manner in which proxies solicited by issuers of securities beneficially owned by client shall be voted; and

- 2) Making all elections relative to any mergers, acquisitions, tender offers, bankruptcy proceedings or other type events pertaining to client's investment assets.

WS, as custodian of client assets, will forward to clients copies of all proxies and shareholder communications relating to clients' investment assets.

For the Managed Accounts Program, respective third-party money managers are responsible for voting proxies on behalf of clients. Each money manager has respectively adopted policies and procedures in an effort to ensure that votes are cast in the best interests of its clients. The proxy voting policies and procedures relating to third-party money managers can generally be found in their respective Part 2A of Form ADV (or substitute brochures) and other documents prepared or information furnished by the money managers.

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

For the Separately Managed Accounts, your portfolio manager(s) will receive a copy of the account agreement. Updated information will be provided to the portfolio manager(s) only as necessary to continue servicing your account.

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

For the Separately Managed Accounts, you may communicate directly with your portfolio manager(s) although you are encouraged to engage in such communication through your Financial Advisor.

## **Item 9. Additional Information**

### **Disciplinary Information**

WS is a registered investment adviser and a registered broker-dealer. The disciplinary information listed below is related to the activities of the broker-dealer and investment adviser.

In addition to the disciplinary events listed below, you can find additional information at <http://www.adviserinfo.sec.gov/>

In September 2019, without admitting or denying the findings therein, except as to the Securities and Exchange Commission's ("SEC") jurisdiction over it and the subject matter of those proceedings, the SEC accepted WS' offer of settlement, along with 94 other investment advisers, who voluntarily participated in the SEC's self-reporting Share Class Selection Disclosure Initiative ("SCSD"). The Order alleged that WS willfully violated Sections 206(2) of the Investment Advisers Act of 1940 (the "Advisers Act") in connection with inadequate disclosures on conflicts of interest related to (a) the receipt of 12b-1 fees, and/or (b) the selection of mutual fund share classes that pay such fees for the period from January 1, 2014 to June 26, 2018. WS was censured and ordered to cease and desist from committing or causing any violations and any future violations of Sections 206(2) of the Advisers Act.

WS is ordered to pay disgorgement of \$1,703,194.38 along with prejudgment interest of \$149,346.59 to affected investors totaling \$1,852,540.97. WS is also ordered to comply with several undertakings.

In February 2018, without admitting or denying the accusations, the Securities and Exchange Commission (“SEC”) accepted WS’ offer of settlement in which WS willfully violated sections 15c3-3, known as the customer protection rule and 17a-1 of the Exchange Act and Rule 17a-5 thereunder, for the period from September 2014 through January 2015. WS was censured and ordered to cease and desist from committing or causing any violations and any future violations of Sections 15c3 and 17a1 of the Exchange Act and Rules 15c3-3 and 17a-5(a) thereunder. WS is ordered to pay disgorgement of \$275,851 along with prejudgment interest of \$28,346 and ordered to pay a civil money penalty in the amount of \$1,000,000 plus post-order interest to the Securities and Exchange Commission. WS is also ordered to comply with an undertaking to retain a qualified independent consultant to conduct a comprehensive review of the firm’s system and controls.

In February 2018, without admitting or denying the allegations, the firm consented to the sanctions and to the entry of findings from the Financial Industry Regulatory Authority, Inc. (“FINRA”) that the firm created and/or increased deficits in its segregation requirement through deliveries or returns of securities. The findings also stated that firm improperly calculated its customer reserve formula which resulted in hindsight deficiencies between \$945,000 and \$77 million. The findings also included that the firm failed to establish and maintain a supervisory system, including written procedures reasonably designed to achieve compliance with both the possession or control requirement and the customer reserve account requirement of the customer protection rule. Under the terms of the offer, the firm has also consented, without admitting or denying the allegations and to the entry of findings and violations arising out of examinations conducted by FNRA in 2014, 2015, and 2016, as described below, and to the imposition of the sanctions. The additional findings are as follows: from positions in certificates of deposit (CDs) issued by major financial institutions for which there was no “ready market,” for over five business days, but failed to deduct the value of each position exceeding 30% of the firm’s tentative net capital. The firm created and maintained inaccurate books and records that inaccurately reported the amounts the firm was required to maintain in its customer reserve account and inaccurately reported its net capital. Without admitting or denying the findings, the firm agreed to a censure and fine of \$1,500,000.

Financial Industry Regulatory Authority, Inc. (“FINRA”) alleged that Mr. Edward Wedbush, as President of WS, failed to establish and maintain a supervisory system and establish, maintain, and enforce WS’ policies reasonably designed to achieve compliance with rules regarding regulatory filings. FINRA alleges that the firm had late and inaccurate filings of Forms RE-3/U4/U5. On October 11, 2016, Mr. Wedbush appealed the National Adjudicatory Council decision to the United States Court of Appeals for the Ninth Circuit. The U.S. Court of Appeals decision rendered April 20, 2018 denied Mr. Wedbush’s petition for review. The decision became final on July 19, 2018. Mr. Wedbush was suspended in any principal capacity for 31 days from August 20, 2018 through September 19, 2018 and paid a \$50,000 fine.

In October 2010, WS consented to a finding by FINRA that the firm violated MSRB rules by selling municipal securities from its own account to customers at an aggregate price (including any markdown or markup) that was not fair and reasonable. Without admitting or denying the findings, the firm agreed to a censure and fine of \$12,500. The firm also made restitution totaling \$5,986.26

to customers.

In May 2010, WS consented to a finding by FINRA that the firm violated NASD rules by failing to execute orders fully and promptly; in transactions for or with customers, the firm failed to use reasonable diligence to ascertain the best inter-dealer market and failed to buy or sell in such market so that the resultant price was as favorable as possible under prevailing market conditions. Without admitting or denying the findings, the firm agreed to a censure and fine of \$10,000, and made restitution totaling \$581.38.

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

WS is a registered investment adviser and a registered broker-dealer. Generally, Financial Advisors of WS are also registered representatives of WS Broker-Dealer (non-advisory). Therefore, the wrap fees charged may be higher than if the client were to purchase the individual securities without participation in the advisory programs. A non-advisory brokerage account based on commissions instead of an advisory wrap fee based account could be used to effect few transactions in which case the amount of revenue earned by the firm and the Financial Advisor would be less than if a wrap fee were assessed on the account's asset base. This may pose a conflict of interest in that the Financial Advisor may have an incentive to recommend a wrap fee program instead of a brokerage account. You are responsible for assessing whether a wrap fee program is appropriate for you based on your investment strategy and the frequency in which transactions are effected by your Financial Advisor or Portfolio Manager.

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

#### **Code of Ethics**

WS has adopted the Investment Adviser Code of Ethics (the "Code of Ethics") pursuant to Rule 204A-1 under the Advisers Act expressing the firm's commitment to ethical conduct. Access Persons, as defined by Rule 204A-1 under the Advisers Act, must adhere to employee trading policies. Personal trades made by officers, employees, and associated persons, which include Financial Advisors and Portfolio Managers, are reviewed by supervisory or designated Compliance Examiners in the Compliance Department.

WS requires that all individuals must act in accordance with all applicable Federal and State regulations governing registered investment advisory practices. WS' Code of Ethics further includes the firm's policy prohibiting the use of material non-public information. Violators of the firm's Code of Ethics, policies and procedures may be subject to disciplinary action and sanctions, which may include termination of employment.

Clients and prospective clients may request a copy of the Code of Ethics by contacting the Compliance Department at (213) 688-8000 or by email to [Compliance@wedbush.com](mailto:Compliance@wedbush.com).



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

WS provides full service investment banking, broker-dealer and asset management services. As a full service organization, WS and its directors, officers, and employees may have multiple advisory, transactional, financial and other interests in securities, instruments and companies that may be purchased or sold by its advisory clients and may buy or sell securities it also recommends to clients. As a broker or agent, WS effects securities transactions for compensation for any client. WS has established policies, procedures, and controls reasonably designed to address conflicts of interests arising between advisory accounts and the firm's businesses.

Financial Advisors are prohibited from engaging in principal transactions with you and from acting as a broker (or an affiliate of the adviser acting as a broker) for the counterparty to any client transaction as to which the adviser representative acted as an investment adviser (known as an "agency cross" transaction) unless, in each case, the Financial Advisor has given the client prior written notice of the capacity in which he is acting and has received the client's consent to the transaction. When acting as agent or principal, WS may charge client a commission, markup, markdown or other commission equivalent.

It is the policy of WS that no person employed by WS shall prefer his or her own interest to that of an advisory client or make personal investment decisions based on the investment recommendations and/or decisions of advisory clients.

## **Personal Trading**

In order to prevent conflicts of interest by a Financial Advisor who buys or sells in his/her account the same security that he/she buys or sells for your account, the client's transactions must precede or be given priority over the Financial Advisor's transactions. Otherwise, the Financial Advisor's trade and your trade would be adjusted to receive the average price. However, if you received a better price on a buy or sell of the same security even if your trade occurred after the Financial Advisor's trade, you would be accorded the better price.

To prevent insider trading and to comply with the firm's insider trading policy, WS maintains a Restricted List to monitor and restrict employee trades on equity securities and its respective options for any company placed on the list. The Restricted List is used when the Research Department issues a research report on a material event such as an opinion change or initiation of coverage. Although employees are restricted from buying or selling companies on the restricted list, clients are generally not prohibited from effecting transactions in those securities. Additionally, virtual "walls" may be put into place to prevent communications between different business departments regarding specific securities, as necessary. WS may recommend to advisory clients that they buy or sell securities or investment products in which WS or a related person has some financial interest.

From time to time, WS and its affiliates, directors, officers and employees, through such WS activities as research, corporate finance and investment banking, may become aware of non-public information concerning companies which could reasonably be expected to affect purchases or sales of those companies' securities. Various procedures are used to isolate inside information from trading activity. However, to comply with applicable law, from time to time WS may be required to restrict the purchase or sale of a security, which might otherwise be purchased or sold for the

advisory accounts. In addition, the firm shall have no obligation to obtain any inside information about any issuer of securities, or to effect transactions for advisory accounts on the basis of any inside information as may come into its possession, or make any research or analysis prior to its public dissemination. The firm has adopted a Code of Ethics designed to address the potential conflict of interests involving personal securities trading by firm personnel. The firm shall have no obligation to recommend for purchase or sale by advisory accounts any instrument that the firm or its personnel may purchase or sell for themselves or for any other clients.

### **Review of Accounts**

Each new account is initially reviewed at account opening by the Financial Advisor and the designated supervisor in the respective offices to determine suitability level. Thereafter, the Financial Advisor and the designated supervisors in the offices monitor performance of client accounts on an ongoing basis. Regional Executive and Wealth Management personnel may also monitor and review accounts on an ongoing basis. The Managed Assets Department coordinates with the applicable Financial Advisor and client outreach is initiated should an account reach a high cash balance, or if the number of transactions effected on behalf of the account fall below a certain threshold.

Accounts are provided monthly account statements if there is activity; otherwise, quarterly statements are provided. Quarterly performance reports are provided for all fee-based accounts.

Typically, under one of the Managed Account Programs, the Financial Advisors and/or designated supervisors may communicate with the portfolio manager in the following circumstances – but is not limited to – when there is a change in the client’s financial situation, objective, or risk tolerance.

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

From time to time, WS enters into arrangements with certain non-supervised persons, including entities or individuals, where the Adviser compensates them for introducing or referring clients to the Adviser.

### **Financial Information**

WS has never filed for bankruptcy and is not aware of any financial condition that is expected to impair its ability to meet its contractual obligation to client accounts.