



# Part 2A Appendix 1: Wrap Fee Program Brochure

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5429 LBJ Freeway, Suite 750  
Dallas, TX 75240  
972-581-3000  
[www.prosperafinancial.com](http://www.prosperafinancial.com)

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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](http://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 September 30, 2021:

- Added descriptions of certain Wells Fargo sponsored advisory wrap programs offered by Prospera, specifically the Private Investment Management, Asset Advisor, Custom Choice, and Private Advisor Network programs.
- Added an additional conflict regarding the securities-based lending program.
- Restated overage transaction charges for these programs.
- Enhanced the conflict disclosures for securities-based lending and recommending P-Summit Wrap or Summit II programs.

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## Item 4 – Services, Fees and Compensation

All of the Programs described in this brochure are charged a "Wrap Fee" on Eligible Program Assets that covers advisory, execution, custodial, and reporting services. The Standard Program Fee Schedules for each Program are set forth below. The Standard Program Fee is negotiable. For transactions in Excluded Assets, you will pay all of our usual and customary commissions, transaction fees, and other charges. Excluded Assets and other charges will be assessed against your account on or about the transaction date or another date when assessed by us. See below for details on fee exclusions, calculations, refunds, and other information.

Prospera Financial Services, Inc. (referred to as PFS, we/us/our throughout this document) is a corporation formed under the laws of the State of Texas and is dually registered as an investment advisor and broker/dealer. We have been in business since 1982.

Wells Fargo Advisors ("WFA") is a trade name used by Wells Fargo Clearing Services, LLC ("WFCS"). WFA, whose predecessors span more than 150 years, is a leading national securities firm providing investment and other financial services to individual, corporate, and institutional clients. It is a non-bank affiliate of Wells Fargo & Company ("Wells Fargo"), a publicly held company (NYSE: WFC), and financial holding company and bank holding company founded in 1852. Wells Fargo and its affiliates are engaged in a number of financial businesses, including retail brokerage and investment advisory services.

WFCS also uses the trade name First Clearing, which you may see synonymously referenced in this document. These are ultimately all the same Wells Fargo entity. WFA is also affiliated with Wells Fargo Investment Institute, Inc. ("WFI"), a registered investment advisor that provides advisory services and research to WFA.

The terms "Client", "you", and "your" are used throughout this document to refer to the person(s) or organization(s) who contract with us for the services described here.

"Account" means collectively or individually any brokerage account and/or advisory program account you have with us, including and all funds, money, securities, and/or other property you have deposited with us. "Securities and other property" means, but is not limited to, money, securities, financial instruments, and commodities of every kind and nature and related contracts and options, distributions, proceeds, products, and accessions of all property.

### Types of Advisory Services

We sponsor or offer a number of wrap fee advisory programs that are designed to help you meet your investment objectives and goals. They include Unified and Separately Managed Account Programs ("SMA"), Mutual Fund Advisory Programs, Financial Advisor ("FA") Directed Programs, and Non-Discretionary, Client-Directed Advisory Programs. We also offer Consulting and Financial Planning advisory services. This disclosure document is being provided pursuant to Section 204 of the Investment Advisers Act of 1940 and deals solely with our P-Summit Wrap Advisory Program and Summit II Advisory Program and WFA's Asset Advisor Program, CustomChoice Program, Private Investment Management Program, and Private Advisor Network Program (collectively referred to as "the Programs" below). Descriptions of the services and fees for the other programs and services we offer can be found in separate disclosure documents, copies of which are available upon request.

While WFA's Asset Advisor Program, CustomChoice Program, Private Investment Management Program, and Private Advisor Network Program ("WFA Programs") are described herein, these programs are sponsored, controlled, administered, and billed solely by WFA, not PFS. While PFS has endeavored to accurately and comprehensively describe these programs as it relates to PFS acting as investment advisor to our clients under these programs, WFA may change the programs at any time without our consent.

### **FA and Client Directed Advisory Programs**

The investment advisers, affiliated and unaffiliated separate account investment advisers ("Managers"), mutual funds, Exchange Traded Funds ("ETFs"), and advisory annuities who are selected for these Programs employ methods of analysis that are described in the WFA or the adviser's Disclosure Document. Each adviser employs a variety of investment strategies depending on the investment objectives, financial circumstances, risk tolerance, and any restrictions you have indicated. Such strategies ordinarily include long or short-term purchase of securities and, depending on your objectives and the adviser's style, supplemental covered option writing. We also offer certain strategies that include margin transactions, other option or trading strategies, or short-term transactions.

Regardless of which Program you select, you will retain the right to: (1) withdraw securities or cash; (2) vote on shareholder proposals of beneficially owned security issues, or delegate the authority to vote on such proposals to another person; (3) be provided, in a timely manner, with a written confirmation or other notification of each securities transaction, and all other documents required by law to be provided to security holders; and (4) proceed directly as a security holder against the issuer of any security in your Account and not be obligated to join any person involved in the operation of the applicable Program, or any other client of the applicable Program, as a condition precedent to initiating such proceeding. We will provide you with periodic monitoring and reporting of your portfolio's performance.

A client request to establish or terminate Program services, including contribution and withdrawal activity, is not considered a market order due to the administrative processing time needed to establish your advisory Account. However, we will make every effort to process your request promptly.

As described below in the "Other Financial Industry Activities and Affiliations" section, we are engaged in a wide range of securities services. The advice given and action taken in the performance of our duties to you will differ from advice given, or the timing and nature taken, with respect to other Program clients in other advisory Programs.

### **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 only, and any clients participating in this program must open an account with PFS using Pershing as the custodian.

P-Summit accounts may also utilize third party managers with trading discretion provided by the client.

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. This management fee is billed monthly in advance based on the account value as of the last day of the prior month or may be a flat monthly fee. No rebates will be made if a client terminates the P-Summit management during a given month, and the client will not be charged additional amounts if depositing additional funds during a given month.

P-Summit accounts include 120 free trades per calendar year. The cost for additional transactions will be \$2.00 per trade and billed directly to your account; 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. A conflict exists if the IAR pays these fees as she is incentivized not to trade.

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.

Summit II accounts include 40 free trades per calendar year after which a \$7.95 transaction fee applies.

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 unless the position is excluded from advisory billing.

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.

### **Asset Advisor Program - Services, Fees, and Compensation**

Asset Advisor is a non-discretionary, client-directed investment program sponsored by Wells Fargo in which your investment advisor representative provides investment recommendations based on your investment objectives, financial circumstances, and risk tolerance. You have the option of accepting these recommendations or selecting different investments for your account.

Most types of securities are eligible for purchase in an Asset Advisor Account including, but not limited to, common and preferred stocks, exchange-traded funds ("ETF"), closed-end funds ("CEF"), fee-based unit investment trusts ("UIT"), corporate and government bonds, certificates of deposit ("CD"), options, structured products, certain open-end mutual funds whose shares can be purchased at net asset value, certain wrap class alternative investments, such as hedge funds and managed futures funds, and certain wrap class advisory annuities. Collectively, these are referred to as "Program Assets". Program eligible mutual funds include, at any given time, asset allocation funds, alternative strategy mutual funds or other select funds that utilize derivatives, short-selling, leverage, and other strategies to meet stated investment objectives, enhance diversification, hedge risks, accentuate returns or facilitate certain market exposures or more



dynamic allocation changes.

Hedge funds and managed futures are not suitable for all investors. Hedge funds are complex investment vehicles that often use leverage and other speculative investment practices, such as short sales, options, derivatives, futures and illiquid investments that could increase the risk of investment loss. Managed futures are speculative investments that are subject to a significant amount of risk. Prospective investors must be provided a risk-disclosure statement. This Disclosure Document is not a solicitation, recommendation, or invitation to invest in alternative investments and is intended solely to disclose the availability of alternative investments within the Asset Advisor Program. Over time, your total expenses to own an alternative investment inside your investment advisory account will be greater than the total expenses to own a similar alternative investment outside your investment advisory account.

Certain assets, such as commodity futures contracts, options on such contracts, non-eligible annuities, limited partnership interests, and mutual funds that cannot be purchased at net asset value are not eligible as Program Assets and are referred to collectively as "Excluded Assets" (also known as "Non-Program Assets"). If you purchase or sell Excluded Assets in your account, these transactions will incur commissions or other charges.

While new-issue CDs are an eligible Program Asset, the yield of new-issue CDs takes into account a sales concession in order to compensate the brokerage firms that sell the CDs. For certain advisory accounts, the underwriter retains the sales concession. Although we do not receive the sales concession, it has an impact on the overall yield paid to you. Since we charge an advisory fee on all eligible assets within an advisory account, you are effectively being charged both the sales concession (retained by the underwriter) and the advisory fee on the CD. These charges reduce overall yield on the CD and, in some cases, this results in a negative yield. You should be aware that you could obtain the same CDs without being subject to the advisory fee if you purchase it in a non-advisory brokerage account.

Clients participating in the Asset Advisor Program will pay a total management fee, which is negotiable, and any applicable account fees. Some accounts opened prior to June 9, 2017, are subject to a different fee schedule. Please consult the Program Features and Fee Schedule of your Client Agreement.

The maximum management fee for an Asset Advisor Program Account shall not exceed 3% of assets under management.

There is a minimum management fee of \$125 per quarter. For accounts opened prior to May 2011, the minimum management fee is \$250 per quarter. You should be aware that the imposition of the minimum management fee could cause your overall management fee (expressed as a percentage) to be greater than the maximum management fee stated above or the Program Fee stated in your Client Agreement. At our discretion, we can choose to waive the minimum fee.

Certain Asset Advisor clients are eligible to participate in certain allowable syndicate/new issue transactions. Positions purchases via syndicate/new issue transactions within your Asset Advisor account will be excluded from the calculation of the Asset Advisor Program fee for a period of 12 months.

For advisory annuities, consider any charges and fees, including mortality and expense charges, administrative charges, and investment management fees and applicable 12b-1 fees for the portfolio options. These charges and fees will reduce the value of your account and the return on your investment. If you have selected a rider, or optional feature, there is typically an additional cost. Annuity contracts are available in several price structures at PFS. In addition to the advisory annuity contract fees and expenses, you will be charged an advisory fee based on the terms set forth in your advisory Client Agreement. This advisory fee will not be taken from the variable annuity contract. Over time, your total expenses to own an advisory annuity your investment advisory account will exceed the total expenses to own a similar annuity outside of your investment advisory account.

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

- Size of the account
- 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 Asset Advisor Program 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 Asset Advisor Program 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 Asset Advisor Program accounts. 12b-1 fees received by PFS will be credited back to client accounts quarterly unless the position is excluded from advisory billing.

### **CustomChoice Program – Services, Fees, and Compensation**

CustomChoice is a non-discretionary investment advisory program sponsored by Wells Fargo designed to help you allocate your assets among open-end mutual funds in accordance with your individual investment goals, objectives, and expectations. Based on your investment objectives and risk tolerance, your investment advisor representative will recommend an appropriate mix of affiliated or unaffiliated open-end mutual funds and money market funds and target allocation percentages. Funds on the Recommended List and Allowable List (described more fully below in the “Portfolio Manager Selection and Evaluation” section) can be included. Program eligible mutual funds include, at any given time, asset allocation funds, alternative strategy funds, or other select funds that utilize derivatives, short-selling, leverage, and other strategies to meet stated investment objectives, enhance diversification, hedge risks, accentuate returns, or facilitate certain market exposures or more dynamic allocation changes.

You have the option of accepting any of our recommendations or selecting an alternative combination of funds. We will implement your investment decisions, but will not have investment discretion over your account, except for the limited discretion to rebalance your target asset allocation if you authorize us to do so. Over time, as changes occur in the financial markets and/or your investment objectives and circumstances, we may recommend changes in your portfolio. In making these recommendations, we will take the updated information into consideration. In a taxable account, you are advised that your decisions relating to investments in mutual funds will have tax consequences that should be discussed with your tax advisor.

In order to maintain your portfolio in conformance with your target allocation, you may authorize us to rebalance your account using WFA’s automated Rebalance Trading System. See the description of the Rebalance Trading System below. Your rebalance options include: quarterly, semi-annual, or annual.

**Rebalance Trading System.** Domestic clients may request periodic rebalancing of the mutual funds in their account. We can rebalance your account either at predetermined intervals (e.g., annually) or when you direct us to do so. The WFA Rebalance Trading System reviews the actual allocation of mutual funds in your Asset Advisor or CustomChoice account versus the target allocation established for your account. Generally, subject to certain minimum constraints, if any of the funds in your account vary by more established percentages from your Target Allocation on the predetermined interval you selected, we will rebalance the account by initiating sell and buy transactions. WFA has the ability to change these tolerance percentages without notice. You are aware that any transactions initiated to rebalance these assets will cause you to incur tax consequences. The Rebalance Trading System will not rebalance any assets that are not offered through the program (i.e., “Excluded Assets or Non-Program Assets”).

Clients participating in a CustomChoice Program account will pay a total management fee, which is negotiable, and any applicable account fees. Some accounts opened prior to June 9, 2017, are subject to a different fee schedule. Please consult the Program Features and Fee Schedule of your Client Agreement.

The maximum management fee for a CustomChoice Program shall not exceed 3% of assets under management.

There is a minimum management fee of \$75 per quarter. You should be aware that the imposition of the minimum Program Fee could cause your Program Fee (expresses as a percentage) to be greater than the Standard Program Fee stated above or the Program Fee in your Client Agreement. At our discretion, we can choose to waive the minimum fee.

Clients participating in the CustomChoice Program 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 CustomChoice Program 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 CustomChoice Program 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 CustomChoice Program accounts. 12b-1 fees received by PFS will be credited back to client accounts quarterly unless the position is excluded from advisory billing.

### **Private Investment Management Program ("PIM") – Services, Fees, and Compensation**

Private Investment Management Program ("PIM") is a FA Directed Program sponsored by Wells Fargo in which investment advisor representatives (called Portfolio Managers) provide investment advisory and brokerage services to your Account on a discretionary basis. Your Portfolio Manager will recommend a program based on your investment objectives and individual needs.

PIM is based on both fundamental and quantitative research and other independent research. Allowable securities include stocks, bonds, cash, Program-Eligible mutual funds, ETFs, CEFs, fee-based UITs, CDs and covered options. Program-eligible mutual funds include, at any given time, asset allocation funds, alternative strategy mutual funds or other select funds that utilize derivatives, short-selling, leverage, and other strategies to meet stated investment objectives, enhance diversification, hedge risks, accentuate returns, or facilitate certain market exposures or more dynamic allocation changes. Individual PIM Portfolio Managers develop specific investment strategies using a mix of these analytic methods. They also establish quality and concentration requirements to provide overall discipline. Such strategies ordinarily include long and short-term securities purchases and, depending on your objectives and the Portfolio Manager's investment philosophy, supplemental covered option writing. In special circumstances, the strategies also include margin transactions, other option strategies, and trading or short sale transactions.

Some Portfolio Managers follow the investment recommendations that are the basis for investment decisions for one, or more, Wells Fargo Compass strategies available within the Personalized UMA Program for some, or all, assets in their program accounts. Personalized UMA is another advisory service offered by WFA. Advisory fees associated with Wells Fargo Compass strategies within the Personalized UMA Programs are not charged to clients whose assets are invested following the Wells Fargo Compass strategy investment recommendations. Clients whose accounts are invested in whole or in part in accordance with Wells Fargo Compass strategy recommendations should

consider placing that portion of their account into a Wells Fargo Compass strategy within the Personalized UMA Program.

WFA, WFII, or third-party research assists in developing security selection models for PIM Portfolio Managers. When seeking to anticipate trends and identify undervalued securities with sound fundamentals, Portfolio Managers for PIM may also use a security selection and portfolio modeling process that incorporates fundamental, technical, and statistical analyses of historical data. Due to any number of factors, including timing of client asset deposits, investment selection process, or client investment needs, certain clients receive different execution prices and investment results.

Clients participating in a Private Investment Management Program Account will pay a total management fee, which is negotiable, and any applicable account fees. Some accounts opened prior to June 9, 2017, are subject to a different fee schedule. Please consult the Program Features and Fee Schedule of your Client Agreement.

The maximum management fee for a Private Investment Management Program Account shall not exceed 3% of assets under management and includes up to 120 trades per year. The cost for additional transactions will be \$2.00 per trade and billed directly to your account; 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. A conflict exists if the IAR pays these fees as she is incentivized not to trade.

There is a minimum Program Fee of \$250 per quarter. You should be aware that the imposition of the minimum Program Fee could cause your Program Fee (expresses as a percentage) to be greater than the Standard Program Fee stated above or the Program Fee in your Client Agreement. At our discretion, we can choose to waive the minimum fee.

Clients participating in the Private Investment Management Program 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 Private Investment Management Program 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 Private Investment Management Program 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 Private Investment Management Program accounts. 12b-1 fees received by PFS will be credited back to client accounts quarterly unless the position is excluded from advisory billing.

### **Private Advisor Network Program – Services, Fees, and Compensation**

Under the Private Advisor Network Program sponsored by Wells Fargo, we assist you in identifying a manager to advise and counsel you relative to your investment of assets. The intent of the Program is to offer a roster of managers representing a broad array of investment classes and styles from which you select a Private Advisor Network Manager to handle the day-to-day management of your account. Private

Advisor Network services typically include matching the personal and financial data you provide with a database of Managers and providing reports to allow for periodic evaluation and comparison of account performance with objectives.

Under the Private Advisor Network Program, we will provide information on Managers that appear to meet your needs. Private Advisor Network Managers classified as "Cleared" in our Program have provided sufficient information to WFII for review and have passed their screening qualifications on an ongoing basis. Some of the factors that are considered for clearing a manager include track record, number of investment professionals, assets under management, and legal and disciplinary history.

Those Private Advisor Network Managers not classified as "Cleared" have not met all or some of WFII's screening qualifications, but certain clients have specifically requested their inclusion. Generally in these cases, clients have a pre-existing relationship with the manager that they'd like to continue. If WFII accommodates such a request, these managers are not included in their Manager identification or ongoing review processes described above.

We will provide you with recommendations regarding the retention or replacement of your Manager. Reasons for a replacement recommendation include, but are not limited to, a material change in the advisor's professional staff, legal and disciplinary issues, and/or unexplained poor performance. You acknowledge that our recommendations will be based only on the information we or WFII have concerning your assets under the Private Advisor Network Program, without regard to the composition of your total portfolio, diversification or liquidity needs, and that such recommendations will not serve as a primary basis for investment decisions with respect to your assets. We and WFII have the ability to remove or change the status of the Private Advisor Network Manager in the Program. If we do remove your current Private Advisor Network Manager from the Program, we will suggest an alternative if available, for your consideration. As an accommodation, in the event of a status change, you have the option to retain your current Private Advisor Network Manager, but you will be notified in writing that the Manager no longer meets the minimum requirements of the Program.

Under the Private Advisor Network Program, you grant the Manager complete discretionary trading authority and authorize the manager to handle the day-to-day investment management of your account in accordance with the separate management agreement between you and the manager. We have no discretionary trading authority with respect to such accounts. Information collected by us regarding Private Advisor Network's Managers is believed to be reliable and accurate, but we do not independently review or verify the information. WFII includes affiliated managers in the roster of Cleared managers. WFII has the same screening qualifications for these managers as for unaffiliated managers.

While performance results are generally reported to us through advisers on a standard gross of fees or commission basis, we do not audit or verify that these results are calculated on a uniform or consistent basis as provided by the adviser directly to us or through the consulting service utilized by us. Other than in connection with our consulting responsibilities, we do not assume responsibility for the conduct of the Managers you select, including their performance or compliance with laws or regulations. You are advised and should understand that:

- a) A Manager's past performance is no guarantee of future results;
- b) Certain market and/or interest rate risk can adversely affect any Manager's objectives and strategies, and could cause a loss in your account, and
- c) Risk parameter or comparative index selections provided for accounts are guidelines only; there is no guarantee that they will be met or exceeded.

Some Managers use covered calls or protective puts (or a combination of both) in your portfolio. Check with your manager or financial adviser to confirm the use of options. Depending on the strategy implemented, covered call can limit the upside potential of the securities held in your account. In certain circumstances, options will be assigned, and you will be required to sell securities, thus creating gains/losses. The purchase of a protective put runs the risk of losing the entire value of the purchased option as options become valueless upon expiration if they are not exercised or sold prior to the expiration date of the contract.

**Managers Using Advanced Option Strategies.** For managers that use advanced option strategies, such as an iron condor strategy, clients are required to sign an Advanced Option Strategy Addendum to the Program Features, maintain a separate collateral account, be approved for a Level 6 options trading level, and have an investment objective of Trading and Speculation.

If the collateral for this account participates in a PFS or WFA-sponsored investment advisory program, your collateral account is also subject to the standard fees as described in the applicable Program Features and Investment Advisory Disclosure Document.

Option writing can result in losses in your account, however the losses can be limited by the purchase of options on the same underlying security. However, even when the writer buys a corresponding hedging option position, the risks can still be significant.

The purchaser of a call or put runs the risk of losing the entire value of the purchases option as options become valueless upon expiration if they are not exercised or sold prior to expiration.

For more information, please see the options disclosure document titled "Characteristics & Risks of Standardized Options".

Clients participating in the Private Advisor Network Program account will pay a total management fee, which is negotiable, and any applicable account fees. Some accounts opened prior to June 9, 2017, are subject to a different fee schedule. Please consult the Program Features and Fee Schedule of your Client Agreement.

The maximum management fee for a Private Advisor Network Program account shall not exceed 3% of assets under management.

You have a choice of two options by which to compensate us for Private Advisor Network services:

- 1) **Program Fee:** Payment of a Private Advisor Network Program Fee includes both Private Advisor Network services and execution services\*. We will impose no separate charge for brokerage commissions on agency trades or markups or markdowns on principal transactions, except mutual fund purchases, if any.

\*For accounts invested in Advanced Options Strategy, the advisory Program Fee and Platform Fee are calculated based on the target notional value as detailed in the Advanced Option Strategy Addendum to the Program Features. The target notional value is the agreed upon value of broad-based equity market index exposure that the underlying option contracts in the portfolio should represent. The target notional value does not change over time unless a new value is agreed upon in writing. The actual value of the index exposure in your account can be significantly higher or lower than the target notional value.

There is a minimum Program Fee of \$375 per quarter. You should be aware that the imposition of the minimum Program Fee could cause your Program Fee (expressed as a percentage) to be greater than the standard Program Fee stated above or the Program Fee stated in your Client Agreement. At our discretion, we can choose to waive the minimum fee.

- 2) **Execution Schedule:** (No separate charge for Private Advisor Network services) Under the Execution Schedule, you will pay for Private Advisor Network services by paying commissions for each transaction in the account at our normal commission rate for such agency transactions and the normal markup or markdown imposed on client accounts for principal transactions. You will also be subject to any fees associated with our standard brokerage accounts, including postage and handling fees, transfer taxes, exchange fees, and any other fees required by law.

Neither the Execution Schedule nor Program Fee includes the advisory fees of the third-party Manager. You pay for the services of your manager separately. You authorize us to pay the separate investment advisory management fee invoices by the Manager by debiting your account accordingly. It is your responsibility to determine if any such invoice from the Manager is proper or if the fee amount charged is accurate. You have the option to revoke our authorization to pay the Manager's fee on your behalf at any time by written notice to us. When affiliates of PFS serve as Manager to clients of the Program, we and our affiliates will receive the entire advisory fee.

**Private Advisor Network Non-Execution Accounts:** For clients wishing to utilize the selection or evaluation monitoring services of the Private Advisor Network without any execution service, the fees for such accounts, payment schedules, and refunds thereof are negotiated on a case-by-case basis and are to be determined as a percentage of assets under management, as annual fee or by consideration of other factors.

Clients participating in the Private Advisor Network Program 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 Private Advisor Network Program 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 Private Advisor Network Program accounts. 12b-1 fees received by PFS will be credited back to client accounts quarterly unless the position is excluded from advisory billing.

### **Fees and Compensation – Additional Information For WFA Programs**

In certain limited instances, we negotiate a customized Program Fee schedule with Clients that is different than the Program Fee described herein. In these instances, Clients will be required to sign an additional addendum that will detail their Program Fee schedule.

The initial Program Fee is calculated as of the date that the account is accepted by us into the Program and covers the remainder of the calendar quarter. There is typically a short delay between Account inception and initial investment transactions. Subsequent Program Fees will be determined for calendar quarter periods and shall be calculated on the basis of the Account value on the last business day of the prior calendar quarter.

No fee adjustment will be made to the Program Fee during any fee period for appreciation or depreciation in the value of the assets in your Account during that period. The Account will be charged or refunded a prorated quarterly Program Fee on any net additions or net withdrawals in the Account during a month. Program Fees will be charged or refunded if the net addition or net withdrawal would generate a fee or refund of at least \$40 for that quarter. Program Fees will be assessed in the month following the net addition or net withdrawal. Fees are based on the value of the assets in your Account on the date stated and other than those fees we will not otherwise be compensated on the basis of a share of capital gains upon or capital appreciation of the funds or any portion of your funds (i.e., performance fee). No adjustment will be made to the fee for cash and/or securities added or withdrawn if the account terminates prior to our monthly fee adjustment for such activity.

### **The WFA Platform Fee**

A Platform Fee of 0.059% will also apply to certain WFA Program Accounts ("Participating Accounts").

- ERISA plans, SEPs, SIMPLE IRAs, Accounts of unaffiliated introducing firms that clear their transactions through us, but for which we do not act as adviser, and Accounts held at a third party custodian to which WFA agrees to act as broker for you in the purchase and sale of securities on a delivery versus payment/receipt versus payment ("DVP/RVP") basis are not subject to the Platform Fee and are not considered Participating Accounts.
- All other Program Accounts are considered Participating Accounts.

The Platform Fee applies only to the first \$50 million of Account Value (defined below) and does not apply to Participating Accounts that have not been invested in a Program for a full calendar quarter and accounts that are not open on the date that the Platform Fee is assessed to Accounts.



The Platform Fee supports the administrative services WFA provides to maintain the platform on which the Program Accounts reside, including, for example, shareholder and omnibus recordkeeping services provided to mutual funds available through the Programs. The Platform Fee is in addition to the Program Fee and is non-negotiable.

The Platform Fee is assessed quarterly in arrears to such Participating Accounts that are open as of the date the Platform Fee is assessed, which will generally be 10 business days after the end of the calendar quarter and is calculated based on your Account value as of the last business day of such quarter.

### **General Information About Fees for PFS Advisory Program Services**

You should be aware that fees charged for the Program could be higher or lower than those otherwise available if you were to select a separate brokerage service and negotiate commissions in the absence of the extra advisory service provided. Advisory Programs typically assume a normal amount of trading activity and, therefore, under particular circumstances, prolonged periods of inactivity will result in higher fees than if commissions were paid separately for each transaction. The overall costs associated with your relationship with us (and the compensation we receive) vary depending on several factors, including:

- Your particular investment advice requirements and product preferences
- The value of your Account or household relations with us and our affiliates
- The frequency of trades and other account activity
- The type, scope, and frequency of services provided

The Program or Management Fee is negotiable based upon these and other subjective factors, as well as our point-in-time views of the prevailing market prices for similar investment services. As a result of negotiated Program or Management Fees, certain Clients have a lower Program Fee or Management Fee for their Accounts than other Clients.

If you liquidate securities prior to initiating or after terminating Program services, you will be subject to customary brokerage charges with respect to that transaction, in addition to any fees for Program Services that are applicable during the period. For eligible securities purchased previously in a brokerage Account and subsequently moved into an advisory Account, these securities will be included in the calculation of fees for Program services, in addition to any previous brokerage charges paid.

A portion of the Program Fee or Management Fee (but not the Platform Fee) will be paid to our Financial Advisers in connection with the introduction of Accounts as well as for providing Client-related services within the Programs. This compensation could be more or less than a Financial Adviser would receive if you paid separately for investment advice, brokerage, and other services. If a Financial Adviser wishes to discount the Program Fee or Management Fee below certain levels, they have the ability to do so under certain circumstances. Financial Advisers generally will earn reduced compensation resulting from the discount. This creates an incentive for Financial Advisers to not discount.

In an advisory Account, you pay fees based on the percentage of assets in your Account in accordance with an investment advisory Program agreement. Certain advisory Programs have higher total fees than other advisory Programs based on a number of factors including, but not limited to, management fees, and administrative fees. A conflict of interest exists to the extent that we have a financial incentive to recommend a particular advisory Program that results in additional or greater compensation to us.

Unless agreed to otherwise in writing, you authorize us to deduct fees at the rates indicated in the Fee Schedule for your Program quarterly from your Account(s). The Program Fee or Management Fee will generally be applied in advance, while the Platform Fee will be applied in arrears. For the purposes of calculating fees in the CustomChoice Program, "Account Value" shall mean the sum of the long market value of all Program eligible mutual funds, including accrued income. For the purposes of calculating fees in the P-Summit Wrap, Summit II, Asset Advisor, Private Investment Management, and Asset Advisor Network Programs, "Account Value" means the aggregate value of all eligible long positions, including accrued income, cash, and cash alternatives held in the Account, offset by the value of the short positions held in the Account. When you initially enter into a short position, the cash proceeds from the short sale will not affect your Account Value for billing purposes, but once the value of the short position changes, this change will be reflected in your Account Value. Accordingly, if your Account has a short position that reflects an unrealized gain, the Account Value will increase by the amount of the unrealized gain. Similarly, an unrealized loss will reduce your Account Value by the amount of the loss. Note that if you use the proceeds of a short sale to purchase additional securities, those securities are included in the long positions used to calculate your Account Value.



Here is an example of how a short position can affect your Account Value – and this the fees you pay:

- **Short proceeds not reinvested** – If, on the date as of which your advisory fee is calculated, you hold a long position in XYZ stock that is valued at \$1000, and also hold \$250 in cash, and during the billing period you took a short position of \$200 in ABC stock that was unchanged in value, your Account Value for billing purposes would \$1,250. If the ABC stock increases in value to \$300 (meaning that you have an unrealized loss of \$100 on the short position), your Account Value would fall to \$1,150. If the ABC stock decreases in value to \$100, reflecting an unrealized gain of \$100 on your short position, then your Account Value would increase to \$1,350.
- **Short proceeds reinvested** – If you reinvest all the proceeds from the \$200 ABC short sale in PQR stock, and the value of the ABC stock remains unchanged, your Account Value will increase (or decrease) by the amount of the appreciation (or depreciation) in PQR stock. If the value of the PQR stock increases from \$200 to \$500, your Account Value would increase from \$1250 to \$1550, reflecting the value of all long positions in ABC and PQR stock (\$1500), plus the value of the cash (\$250), and offset by the value of the short position (\$200). If, in the same scenario, the short position experienced an unrealized gain of \$100, your Account Value would be \$1650.

Margin debit balances do not reduce the Account Value and purchasing eligible securities with proceeds from a margin loan increases your Account Value by the value of these positions. If the margin loan proceeds are reinvested in securities, the Account Value will be affected by any changes in the value of the securities. You will also be charged margin interest on the debit balance in your Account. Margin interest is in addition to the Program Fee or Management Fee and Platform Fee. The interest charges, combined with the Program Fee or Management Fee and Platform Fee, may exceed the income generated by the assets in your Account and, as a result, the value of your Account may decrease. This is a conflict for us to recommend the use of Margin. We also set the margin rates, which is an additional conflict to recommend the use of margin.

In determining the Account Value, we will use the closing prices or, if not available, bid prices of the last records 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 Program Fee or Management Fee and the Platform Fee will be applied to cash alternatives (i.e., money market funds) held inside the Account (with the exception of the CustomChoice Program). 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.

### **WFA Advisory Account Credit**

WFA will apply a credit ("Advisory Account Credit") to all Participating WFA Program Accounts that were charged the Platform Fee during the relevant calendar quarter. Program Accounts that are not charged the Platform Fee during any calendar quarter are not eligible to receive an Advisory Account Credit for that calendar quarter.

The application of the Advisory Account Credit is designed to address conflicts of interest associated with certain payments we or WFA received from mutual funds (and their affiliates) that are based on investments held in Participating Accounts. Such payments are limited to amounts paid for networking and omnibus platform services and revenue sharing generated by Participating Accounts (collectively, "Platform Support"), and does not include all fees we collect from fund companies. See "Mutual Funds and Exchange Traded Funds in Advisory Programs" below for a description of payments and expense reimbursements from mutual funds (and their affiliated) nor considered Platform Support for purposes of calculating the Advisory Account Credit.

The Advisory Account Credit is calculated based on the Platform Support accrued or collected attributable to eligible assets in Participating Accounts, as adjusted for amounts carried over from a prior period not previously credited and amounts credited in a prior period but not actually received. The calculation of the Advisory Account Credit will also be adjusted for the costs of third-party administrative expenses, if any, directly associated with the collection, calculation, and distribution of the Platform Support and application of the Advisory Account Credit.

The Advisory Account Credit for each Participating Account that is charged a Platform Fee will be based on the Account Value of the Participating Account calculated as a percentage of the aggregate value (determined as of the last day of such quarter) of all Participating Accounts (up to \$50 million per Account) charged the Platform Fee. The Advisory Account Credit will be credited quarterly and will generally be calculated and applied on the same day that the Platform Fee is applied. The Advisory Account Credit received by each Participating Account will not be directly proportionate to the benefit received by the Firm attributable to that particular Account.

The amount of the Advisory Account Credit will vary quarterly, will be equal to, less than or more than the Platform Fee, and could be \$0. The amount of the Advisory Account Credit is dependent on the amount of the Platform Support, if any, that is collected as described herein. This amount varies based on factors such as charges in the allocation or value of mutual fund assets in Program Accounts and changes in our agreements with mutual fund companies, as well as market forces.

For taxable accounts, to the extent your Advisory Account Credit exceeds the total amount of fees for Program services charged in any given year, the difference is treated as miscellaneous income for tax reporting purposes, and you will receive IRS Form 1099-Misc from Wells Fargo Clearing Services, LLC in the event your aggregate, annual miscellaneous income is \$600 or greater.

We reserve the right to stop collecting the Platform Support at any time and, if we do not receive Platform Support, the Advisory Account Credit will be \$0. We have no obligation to attempt to maximize Platform Support during the time in which we are collecting it.

### **Important Information about the WFA Advisory Account Credit**

Although the Advisory Account Credit is intended to address our direct financial interests in, and conflicts with respect to, our receipt of Platform Support with the mutual funds, the structure of the Advisory Account Credit nevertheless results in other conflicts that you should understand.

In calculating the Advisory Account Credit, Platform Support generated by mutual fund holdings in Participating Accounts will be credited on a pro rata basis (based on Account assets of up to \$50 million) to all Participating Accounts that are charged the Platform Fee. As a result, Participating Accounts that are charged the Platform Fee will receive an Advisory Account Credit regardless of whether, and the extent to which, such Accounts invest in mutual funds that contribute to the Platform Support. The amount of the Advisory Account Credit a Participating Account receives will be equal to, more than or less than, the amount of Platform Support generated by the actual mutual fund holdings, if any. This, certain Platform Accounts will benefit from the Platform Support attributable to the investments of other Participating Accounts.

The mutual fund holdings in Participating Accounts for which we are not charging the Platform Fee (Participating Accounts of unaffiliated introducing firms for which we act as adviser and Participating Accounts that have not been invested in a Program for a full calendar quarter, as well as with respect to the portion of the Account Value of Participating Accounts in excess of \$50 million) will generate Platform Support but will not receive an Advisory Account Credit. As a result, the amount of Platform Support attributable to mutual fund holdings in these Participating Accounts (which are not subject to the Platform Fee) will be used for the benefit of the other Participating Accounts that were charged the Platform Fee.

This is particularly the case for Participating Accounts of unaffiliated introducing firms for which we act as adviser, which we expect to generate Platform Support. As a result, it is expected that the mutual fund investments of unaffiliated introducing firms' Participating Accounts will increase the Advisory Account Credit available and applied to Wells Fargo Participating Accounts.

We seek to address these conflicts of interest through a combination of disclosing it to you, and through our policies and procedures and related controls designed to ensure that we make investment decisions relating to mutual funds available in advisory Program Accounts independent of any considerations that may impact the amount of any such Advisory Account Credit.

## Market Timing in Mutual Funds

Market timing is defined as excessive short-term purchase and sale transactions or exchanges with the intention of capturing short-term profits in violation of the terms of the fund's prospectus. We will not support market timing strategies or activities for mutual funds or any extreme trading activity that we deem, in our sole discretion or by direction of the fund company, detrimental to the interest of average mutual fund shareholders, or contrary to the policies or interest of mutual fund companies with whom we maintain relationships. We, in our sole discretion or by direction of the fund company, reserve the right to reject any transactions or to assess a redemption fee for any partial or full liquidation executed in which the Account trading appears to be inconsistent with the fund's prospectus. Furthermore, when asked by a fund company, we will cooperate and aid in its attempt to identify and impede the efforts of anyone engaged in market timing or extreme trading activity. If the fund company notifies us to reject or cancel a trade for any reason, we reserve the right to cancel it without prior notice to you or any other Client. We will not be held accountable for any losses resulting from market timing activities or any action taken under our market timing policies. Finally, the frequency of mutual fund transactions and exchanges is subject to any limits established by the applicable mutual funds and us.

## Margin Loans and Securities-Based Loan Programs

You may be eligible to use margin in your non-retirement Accounts or pledge your non-retirement Account assets as collateral for margin loans ("Margin Loans"). You may also be able to pledge your non-retirement assets as collateral for loans obtained through certain affiliated and unaffiliated loan programs ("Securities-Based Loan Programs"). It is important that you fully understand the costs, risks, and conflicts of interest involved in pledging your Account assets for a Margin Loan or Securities-Based Loan.

### 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. We set the interest rates for the programs we offer, which is a conflict to recommend these programs.
- **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. This is a conflict for Financial Advisors to recommend these 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. PFS also sets the interest rate for these programs, which is an additional conflict to recommend programs.
- **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.

### Other Account Fees

The fees for Program services do not include certain dealer markups or markdowns, odd lot differentials, transfer taxes, exchange fees, execution fees (foreign and/or domestic) when applicable, ADR custodial pass-through fees, foreign financial transaction taxes when applicable, and any other fees required by law. Cash balances in an Account may be invested in money market mutual funds including, as permitted by law, those with which we have agreements to provide advisory, administrative, distribution, and other services and for which we receive compensation for the services rendered. You should understand that, depending on interest rates and other market factors, the yield that you earn on cash and cash alternatives, including cash sweep funds, CDs and Money market funds in an Account, have been, and may continue in the future to be, lower than the aggregate fees and expenses you pay with respect to cash held in an Account (including the Program Fee and Platform Fee and any fee and expenses you bear as an investor in a cash sweep vehicle. As a result, you may experience a negative overall investment return with respect to cash held in an Account. Furthermore, in some instances, the effective yield of a cash sweep may be negative.

If you invest in foreign stocks or American depository receipts ("ADRs"), you will be subject to foreign tax withholding on the dividends paid or interest earned. An ADR represents underlying shares of a foreign corporation which are held and issued by a bank. While ADRs are traded on U.S. markets, the income and tax withholding are subject to the rules and regulations of the foreign tax authorities with jurisdiction over the underlying corporation. When dividends or interest is paid to investors on such foreign securities, the tax authorities for that country requires the payor to withhold taxes for foreign investors. This can negatively impact the rate of return on your investment. U.S. clients could be eligible to reclaim a portion of foreign taxes that are withheld and/or receive a preferential foreign tax rate on foreign securities by filing specific tax forms seeking such relief. We do not provide tax advice. Please consult your tax advisor for specific information on foreign tax withholding, your eligibility to reclaim a portion of taxes withheld and/or receiving a preferential foreign tax rate and the costs associated with these filings.

Any non-brokerage fees that are not included in the fees for Program Services will be charged to your Account separately.

Your Financial Advisor may suggest that you use other products and services that we offer, but that are not available through the Program you select ("Excluded Assets" or "Non-Program Assets"). Excluded Assets are not charged a Program Fee or a Platform Fee, are not considered in determining the Advisory Account Credit, and are not considered a part of the Program or Program services. We generally recommend that you hold these Excluded Assets in a separate brokerage Account. If an Excluded Asset purchased for or transferred into your Account later becomes a Program Eligible Asset, the Program Fee and the Platform Fee will apply to that Asset without prior notice to you. In Asset Advisor, if that Asset is a mutual fund, it may then become subject to the Rebalance Trading System. You will incur any usual and customary brokerage charges and fees imposed on transactions in Excluded Assets which could include:

- any dealer markups and odd lot differentials, transfer taxes, and other fees;
- charges imposed by broker-dealers and custodians other than us and fees for other products and services that we offer;
- offering discounts, commissions, and related fees in connection with underwritten public offerings of securities;
- margin interest and operational fees and charges;
- IRA fees; and
- any redemption fees, exchange fees and/or similar fees (among which SEC fees are included) imposed in connection with mutual fund transactions whereby we or your Financial Adviser receive additional compensation on these Excluded Assets.

Where these fees apply, the more transactions you enter into, the more compensation that we and your Financial Adviser receive. This compensation creates an incentive for us to recommend that you buy and sell, rather than hold, these investments. We also have an incentive to recommend that you purchase investment products that carry higher fees than investment products that carry lower fees or no fees at all. Please see PFS' ADV Part 2A for a listing of such fees which we share in or are the sole recipients of.

## **Mutual Funds and Exchange-Traded Funds in Advisory Programs**

When structuring our advisory Program offerings, we determine the universe of mutual funds and ETFs that will be made available to advisory Program Clients. Although mutual fund companies typically offer multiple share classes of each of their mutual funds with varying levels of fees and expenses, we generally choose a single share class of each mutual fund for our advisory Program platform.

We do not seek to offer mutual funds or share classes through our advisory Programs that are necessarily the least expensive. Investing in mutual funds will generally be more expensive than other investment options available in your advisory Account, such as ETFs. In addition to the Program Fee and the Platform Fee, you will also bear a proportionate share of each fund's expenses, including investment management fees that are paid to the fund's investment adviser, which in certain instances, is an affiliate of ours, and distribution, shareholders services or other fees paid to us and our affiliates. These expenses are an additional expense to you and are not covered by the fees for Program services; rather, they are imbedded in the price of the fund. You should carefully consider these underlying expenses, in addition to the Program Fee and the Platform Fee, when considering any advisory Program and the total compensation we receive.

Other funds and share classes may have different charges, fees, and expenses, which may be lower than the charges, fees, and expenses of the funds and share classes we make available. These funds and share classes are available through other broker-dealers and financial intermediaries, including our affiliates, and the Funds directly, including where lower-cost share classes are made available. An investor who holds a less expensive share class of a fund will pay lower fees over time – and earn higher investment returns – than an investor who holds a more expensive share class of the same fund.

When evaluating the reasonableness of our fees and the total compensation we receive, you should consider not just the Program Fee and the Platform Fee, where applicable, but also the additional payments and compensation we and our affiliates receive from funds (and their Affiliates), including compensation other than Platform Support, and your eligibility for, and the amount of, the Advisory Account Credit.

For a listing of all share classes that a given fund offers, please refer to the fund's prospectus. Please call your Financial Adviser for more information about any limitations on share classes available through us.

Over time, given funds may offer share classes with lower fees. In these instances, we will determine, from time to time in our discretion, whether and in what manner to offer these share classes to our advisory Clients. This may result in shares you own of the given fund being converted to the share class with lower fees or such share class with lower fees being available only for new purchases. We review our policies, procedures, and systems from time to time in our discretion to determine whether to continue to offer funds with these multiple share classes and reserve the right to no longer offer certain share classes within our advisory Platform program.

## **Additional Payments Received from Funds**

We typically receive support payments and compensation paid by fund complexes for ongoing Account maintenance, marketing support, and education and training services we perform in support of the mutual funds.

- Training and education support

Any 12b-1 fees received from mutual funds are credited back to Client Accounts. This additional compensation is described below, including which compensation is not considered Platform Support and is therefore retained by Wells Fargo.

**Training and Education Support.** Certain mutual fund families, ETF providers, and investment managers have agreed to dedicate resources and funding to provide training and education in local branch offices or in larger group settings, including at the national level. This commitment could lead our Financial Advisers to focus on the products offered by these firms versus products offered by firms not represented during these training and education sessions. These meetings or events are held to teach Financial Advisers about the product characteristics, sales materials, suitability, customer support services, and successful sales techniques as they relate to various products. We select the firms that participate in the training and educational events based on a variety of qualitative and quantitative criteria and may provide supplemental sales and financial data to these firms. The subset of firms that offer this support and participate in nationally organized training and educational events changes periodically. The resources and funding for training and education are not considered Platform Support and are not included in the Advisory Account Credit.



### **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 Financial 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 the 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 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 the Services, Fees, and Compensation section above 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 the Services, Fees, and Compensation section above 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.

**Asset Advisor, CustomChoice, Private Advisor Network, and Private Investment Management.** These Program Client Accounts must be established at PFS (as the introducing broker-dealer) and cleared through Wells Fargo Clearing Services, LLC, a registered broker-dealer, member FINRA/SIPC.

We established a clearing agreement with Wells Fargo to act as our clearing broker-dealer and qualified custodian for certain advisors of our firm. The decision to include Wells Fargo in our clearing arrangements is based on past experience, minimizing commissions and other costs as well as offerings or services that Wells Fargo provides us that we and our clients may require or find valuable, such as online access. Costs associated with using us and/or Wells Fargo may be higher than those obtainable from other broker-dealers in return for products and services offered through us and Wells Fargo. 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 Wells Fargo, we receive economic and non-economic benefits which are conflicts to recommend WFA cleared programs. See the Services, Fees, and Compensation section above 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 Wells Fargo 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,
- Revenue sharing on account fees, transaction charges, cash balances, margin balances, and securities-based loan offerings,
- Discounts on advisory program administrative costs to the firm as we accumulate more assets with Wells Fargo,
- A substantial cash promissory note to maintain our business with WFA,
- Access to an electronic communications network for client order entry and account information.

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

### **Minimum Account Size**

P-Summit, Summit II, and PIM require a minimum of \$50,000 to open an account. Both Asset Advisor and CustomChoice require a minimum of \$25,000 to open an account. Private Advisor Network requires a minimum of \$100,000 to open an account, subject to the third-party Portfolio Manager's minimum. At our discretion, we can choose to waive the minimum Account size. Certain investment options require initial investments greater than the Program minimum Account value. We act as service provider for the advisory Programs offered by WFA, as well as for certain fully disclosed RIA firms that clear their transactions through us. The minimum and maximum Account sizes that these firms require could differ from those as stated in this Disclosure Document. Please refer to the Disclosure Document of those firms, as appropriate, to determine their Account requirements. We have the right to terminate Client Accounts with written notice if they fall below minimum Account value guidelines established by the Firm.

### **Types of Clients**

Most PFS clients are retail clients, such as individual and joint owners, revocable and irrevocable trusts, estates and charitable organizations, individual retirement accounts, self-directed 401(k) participant accounts, Section 529 Plan accounts and custodial accounts, corporations, or other business entities and educational institutions, as well as banks or thrift institutions. 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 selected in order to establish a client arrangement with PFS. In addition, you will be required to establish a brokerage account through PFS and Wells Fargo, Pershing, or Fidelity, depending on the Program chosen.

### **Termination of Services**

You or we may terminate an Advisory Program Account by notifying the other party in writing of the Advisory Program Account to be terminated and termination will become effective upon the receipt of the written notice. If a WFA Advisory Program Account is terminated, WFA will make a pro-rata refund to you of fees paid to us pursuant to the Agreement for the period after the date of effectiveness of such termination through the end of the then current fee period. The Platform Fee is charged in arrears and will not be refunded. Client Agreements terminated prior to the application date of any Advisory Account Credit will not be entitled to any portion of such credit (nor shall such account be subject to the Platform Fee for such quarter). P-Summit Wrap and Summit II accounts are billed monthly in advance and you will not receive a rebate of any unused advisory management fees if you terminate during a given billing month.

If you choose to terminate your Agreement with any of our investment advisory Programs, we can liquidate your Account if you instruct us to do so. If so instructed, we will liquidate your Account in an orderly and efficient manner. We do not charge for such redemption; however, you should be aware that certain mutual funds impose redemption fees as stated in their fund prospectus. For taxable Accounts, you should also keep in mind that the decision to liquidate security issues or mutual funds will result in tax consequences that should be discussed with your tax advisor.

We will not be responsible for market fluctuations in your Account from the time of written notice until complete liquidation. All efforts will be made to process the termination in an efficient and timely manner. Factors that affect the orderly and efficient liquidation of an Account might be size and types of issues, liquidity of the markets, and market makers' abilities. Should the necessary securities' markets be unavailable, and trading suspended, efforts to trade will be done as soon as possible following their reopening. Due to administrative processing time needed to terminate an advisory Account, termination orders cannot be considered market orders. It could take several business days under normal market conditions to process your request.

Upon termination of the Account or transfer of the Advisory Share Class into a WFA retail brokerage account, you authorize us to convert, at our discretion, the Advisory Share Class to the mutual fund's primary share class, typically A shares, without incurring a commission or load without your prior consent. You understand that the primary share class generally has higher operating expenses than the Advisory Share Class, which will negatively affect your performance. Certain mutual fund shares are required to be redeemed as part of the Account termination, as stated in the prospectus.

If a Program Account is terminated, but you maintain a brokerage Account with us, the money market fund used in a "sweep" arrangement could be changed and/or your shares exchanged for share of another series of the same fund. You will bear a proportionate share of the money market fund's fees and expenses. You are subject to the customary brokerage charges for any securities positions sold in your Account after the termination of Program services.

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

PFS and its Investment Adviser Representatives act as the Portfolio Manager(s) for accounts in P-Summit, Summit II, and PIM Programs. For these services, 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 these Programs 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 that are not present in the rest of our wrap fee Programs.

### **P-Summit, Summit II, and PIM Programs Manager Due Diligence Process**

As described above in the "Services, Fees, and Compensation section, P-Summit, Summit II, and PIM Financial Advisers serve as portfolio Managers. These Portfolio Managers develop portfolios based on certain established guidelines and your investment objectives and individual needs. The Programs are designed to provide a disciplined advisory approach to meet your objectives and needs.

We, at our discretion, undertake share class conversions of mutual funds if an advisory or institutional share class becomes available, as long as the fund company allows the conversion to be processed on a tax-free exchange basis. If there is a retail brokerage share class available, we will convert mutual fund shares back to non-advisory or institutional share class shares if you leave the Program.

### **Private Investment Network Program Manager Due Diligence Process**

The Private Investment Network Program described in this Disclosure Document has specific criteria used in evaluating and/or selecting Portfolio Managers and/or the underlying investments for inclusion in the Program. PFS has no involvement in this process as this is a WFA program with services provided by WFII.

Managers and strategies must be on the Roster of reviewed strategies. The Roster and assigned ratings, described below, are based on due diligence provided by our affiliate, WFII. The Manager and strategy evaluation process is intended to offer a diverse list of assessed investment strategies that represent a broad array of asset classes and investment approaches from which you can select one or more Managers and/or strategies to handle the day-to-day investment management of your Account(s).

**Ratings - Recommended:** A Recommended rating is assigned to a strategy in good standing with WFII's Global Manager Research ("GMR") and has earned the highest conviction. The evaluation process for consideration of an investment strategy with a Recommended rating is focused on both quantitative and qualitative analysis. Inputs into the process include the review of relevant information requests and documentation provided by the Managers and an analysis of the individual Strategy's past performance records relative to pertinent market or peer benchmarks and market-based expectations. Additional factors considered typically include the number, continuity, and assessed experience of investment professionals and any substantive changes in investment process or personnel. The review process

included upfront and periodic discussions with Manager personnel. These discussions and resulting information flow typically pertain to investment performance, staffing, operations, asset flows, financial condition, or other such matters that upon further assessment could influence the ongoing rating or availability of the Manager or strategy.

**Ratings - Supported (ERF) Eligibility Review Framework:** A Supported (ERF) rating equates to a level of conviction in a strategy that is not high enough to warrant a Recommended rating. In relation to a Recommended rating, the process by which strategies with a Supported (ERF) rating are evaluated on an on-going basis is less comprehensive and more quantitatively focused through the Eligibility Review Framework (ERF). While the process can include direct discussions with the Managers, the primary sources of information come from manager-provided documentations and third-party databases. Initial and periodic assessed factors often include a quantitative review of past performance, the number and tenure of investment personnel, and asset levels and flows. A rules-based scoring approach will be applied to assess performance and business-related characteristics on a combined basis, but with a qualitative review of the output being the final determining factor. Strategies with a Supported (ERF) rating can also include strategies evaluated under the process for a Recommended rating but not currently being rated Recommended.

**Ratings - Watch Ratings:** Various ratings are assigned in cases where ongoing assessments indicate areas of uncertainty or potential for growing concern. A Watch rating has three levels:

- **Recommended: Watch Level I** – An event has occurred and is being evaluated. Pending the outcome of the evaluation, GMR maintains its recommendation for new purchases.
- **Watch Level I (ERF)** – An event has occurred that triggers mild concern with respect to a strategy.
- **Recommended: Watch Level II** – An event has occurred that has the potential to impact longer term investment prospects and is being evaluated. Pending the outcome of the evaluation, GMR maintains its recommendation for new purchases.
- **Watch Level II (ERF)** – Assigned to Supported (ERF) strategies that fail the performance-based ERF review for two consecutive quarters and/or trigger moderate concern from the fundamental ERF review.
- **Watch Level III** – An event has occurred that triggers significant concern with respect to the future investment prospects of a strategy. GMR recommends restricting new money into the strategy.
- **Watch Level III (ERF)** – Assigned to Supported (ERF) strategies that fail the performance-based ERF review for three consecutive quarters, and/or trigger a significant concern from the fundamental ERF review. GMR recommends restriction of new money into these strategies.

**Ratings - Sell/Sell (ERF):** Assigned when GMR believes the time for Clients to exit a strategy should be relatively short.

**Ratings - Sunset:** Assigned when GMR believes a relatively longer time period for Clients to exit a strategy is acceptable.

**Ratings - Sunset (ERF):** Assigned to Supported (ERF) strategies that fail the performance-based ERF review for four consecutive quarters, and/or trigger a heightened concern from the fundamental ERF review. Used when WFII believes a relatively longer time period to exit a strategy is acceptable.

**Manager Roster/Status Changes and Program Terminations.** For strategies currently available, ongoing reviews can result in a change of rating or removal from the SMA strategies roster. Strategies that meet the criteria for the Supported (ERF) rating but no longer meet the criteria for the Recommended rating would transition to the evaluation process used for the Supported (ERF) rating.

Based on the individual Strategy assessment, a Strategy with a Supported (ERF) rating can also be elevated to the Recommended rating. In such cases, the ongoing review of the Strategy would transition to the evaluation process used for the Recommended rating.

If a Strategy is rated Watch, the Strategy will remain on Watch until such time that continued assessment warrants either removing the Watch rating or terminating the Strategy. Circumstances also arise under which a Strategy is more expeditiously removed from the Program (i.e., without first being rated Watch).

The implementation of a Manager recommendation could be effected immediately for other managed Accounts prior to or simultaneous with providing the same advice for your Account. Because of the delay involved, your Account could receive higher or lower execution prices.



**Mutual Fund Due Diligence Process.** WFA classifies the mutual funds available as described above. These lists include only open-end mutual funds that offer shares at net asset value through advisory Programs such as those described in this Disclosure Document. The Recommended List of funds is determined by due diligence provided by WFII. WFII uses both qualitative and quantitative criteria when evaluating funds for inclusion on the Recommended List. WFII will typically meet with the fund company Portfolio Managers and research staff to discuss the underlying investment philosophy of the fund and how that philosophy is manifested in security buy and sell decisions. Our research team also seeks to understand the capabilities of the Portfolio Manager or team managing the fund to assess how the investment process performed in different market environments. Additional factors influencing the inclusion of a mutual fund on the Recommended Roster typically includes a statistical analysis of the fund's past performance record and management style, the assessed quality of the investment process, changes in investment process or personnel, as well as the number, personnel, continuity, and experience of the investment professionals. As part of our research process, WFII maintains due diligence and database information on each of the Recommended List funds. The due diligence process is a continuing one, funds can be added or removed from the Recommended List on these ongoing assessments.

We reserve the right to remove a mutual fund and replace it with another fund with a similar management style without your consent. For taxable Accounts, fund replacements will have tax consequences. WFII's reasons for removing a mutual fund from the Recommended List Roster includes, but is not limited to, its failure to adhere to expected investment objectives or a given management style, material change in the professional staff managing the fund, unexplained poor performance, a change of the investment management process, or the identification of a better alternative. We will, at our sole discretion, determine whether any or all of these factors are material when deciding to make a replacement. On occasion, funds removed from the Recommended List Roster will remain in your Account, based on trade timing, replacement fund availability, or other model-specific trade considerations. You also have the ability to remove a mutual fund from your Account. If a fund is removed from the Recommended List Roster of available funds, we will act as your attorney-in-fact with full power and authority to buy, exchange, or sell or otherwise effect transactions in your name in shares of mutual funds in your Account.

As mutual funds reach capacity, they are subject to closure to new contributions by existing investors and/or to new investors. In such instances, WFA will seek appropriate, alternative mutual funds for the affected portfolio.

From time to time, one or more of the mutual funds held in a Program Account could experience relatively large investments or redemptions due to research and/or model recommendations that we make. Such transactions can adversely affect these mutual funds since they'd have to sell portfolio securities as a result of redemptions or invest cash that results from additional purchases. Representing the interest of our Clients, WFA typically, but is not required to, takes measures to minimize the impact of such transactions if consistent with your investment objectives and those of other Clients participating in the Program.

We, at our discretion, undertake share class conversions of mutual funds if an advisory or institution share class becomes available, as long as the fund company allows the conversion to be processed on a tax-free exchange basis. If there is a retail brokerage share class available, we will convert mutual fund shares back to non-advisory or institutional share class shares if you leave the Program.

Certain mutual funds are not available to all Clients because of Account types, minimum purchase requirements, geographic availability, fund closures, or other factors.

Mutual funds will include, at any given time, asset allocation funds, alternative strategy mutual funds or other select funds that utilize derivatives, short-selling, leverage and other strategies to meet stated investment objectives, enhance diversification, hedge risks, accentuate returns, or facilitate certain market exposures or more dynamic allocation changes.

**General Due Diligence Information.** Information collected by WFA and/or WFII regarding Managers, mutual funds, and ETFs is believed to be reliable and accurate, but we do not necessarily independently review or verify it on all occasions. While performance results are generally reported to us through consultants or Managers on a standard gross of fees or a commission basis, we do not audit or verify that these results are calculated on a uniform or consistent basis as provided by a Manager directly to us or through the consulting service that we use.

Other than in connection with our consulting responsibilities, we do not assume responsibility for the conduct of Managers, mutual funds, or ETFs that you or we select, including their performance or compliance with laws or regulations. You should also be aware that shares of any particular security will fluctuate in value and when redeemed could be worth less than their original cost. There is no guarantee that your target allocation or our recommendations will protect against such loss of investment.



You should understand that:

- Past performance of a Manager, mutual fund, ETF, and/or advisory annuity is no guarantee of future results;
- Market and/or interest rate risk can adversely affect any objectives and strategies of a Manager, mutual fund, ETF, or advisory annuity and could cause a loss in your Account;
- A Manager's past performance does not reflect management of any Program Account, the performance of which varies according to a number of factors, including the size, timing of Account investment, individual Client investment limitations, and the process whereby we effect trades based on the Advisers' instructions; and
- Your risk parameters or the comparative index selections you provide us are guidelines only; there is no guarantee that they will be met or exceeded.

### **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.

All of our investment recommendations for Program Accounts are based on an analysis of your individual financial needs. They are drawn from research and analysis we believe to be reliable and appropriate to your financial circumstances. Each of the advisory services we offer is tailored to a specific type of investor and designed to meet their individual investment objectives, financial needs, and tolerances of risk. A detailed description of these Programs is provided in the "Services, Fees, and Compensation" section above.

### **Client Restrictions and Instructions**

We will comply with any reasonable instructions an/or restrictions you give us when making recommendations for your Account. Reasonable instructions generally include the designation of particular securities or types of securities that should not be purchases for the Account, or that should be sold if held in the Account.

If your restrictions are unreasonable or if we or your Financial Adviser believe that the restrictions are inappropriate, we will notify you that, unless they are modified, we will remove your Account from the Program. You will not be able to provide instructions that prohibit or restrict the investment advisor of an open-end or closed-end mutual fund or exchange-traded funds, with respect to the purchase or sale of specific securities or types of securities within the fund.

Upon inception, we generally liquidate your pre-existing securities portfolio and bring the Account into conformity with your target allocations. If you wish to hold certain positions for tax or investment purposes, you should consider holding these positions in a separate Account.

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

We do not charge performance-based fees in any of our investment advisory Programs. We also do not have any side-by-side management situations.

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

As stated above in the "Services, Fees, and Compensation" section, our FA Portfolio Managers utilize both fundamental and quantitative research as well as other independent research. Portfolio Managers develop a specific investment philosophy using the mix of these analysis methods. Quality and concentration requirements are established to provide an overall discipline and quality element to the Program. Such strategies ordinarily include long and short-term purchase of securities and, depending on your objectives and the Portfolio Manager's investment philosophy (if so used), supplemental covered option writing. However, in special circumstances the strategies also include margin transactions, other option strategies, and trading or short sale transactions.

The methods of Analysis used and investment Strategies available in the Private Advisor Network Program are described above in both the “Services, Fees, and Compensation” and the “Portfolio Manager Selections and Evaluation” sections.

**Risk of Loss.** All investments shall be at your risk exclusively, and you must understand that we do not guarantee any return on the investments recommended or advised upon and will not be responsible for losses resulting from such trading or for any transactions that we have not recommended to you.

### **Proxy and Reorganizations**

PFS does not vote proxies or consider any other corporate actions on your behalf. We shall have no obligation or authority to take any action or render any advice with respect to the voting of proxies solicited by or with respect to issuers of securities held by you. You retain the authority and responsibility for, and we shall be expressly precluded from rendering any advice or taking any action with respect to, the voting of any such proxies. Certain accounts may permit you to direct proxy ballots to a designated third-party (such as your attorney) or other outside vendor.

Accounts managed by an outside sub-advisor not affiliated with PFS may grant that sub-advisor the right to vote proxies. Other than these style accounts, you will receive proxies directly from the account custodian or investment transfer agent. Although we do not vote your proxies, feel free to contact your investment advisor representative if you have a question about a particular proxy. Likewise, PFS does not advise or act for you in any legal proceedings, including class actions or bankruptcies, or notify you of such events, involving securities purchased for or held in your account. You (or your legal agent) then have the sole responsibility for taking or not taking any action regarding these legal matters.

If you select an FA Directed Program, you delegate voting authority to a third-party proxy voting service provider, Institutional Shareholder Services, Inc. (“ISS”), which we have engaged to vote proxies on your behalf to act (or refrain from acting) with respect to proxy information related to securities, or the issuer of securities, held or formerly held in an advisory Program Account. ISS will vote proxies on your behalf in accordance with established guidelines. ISS’ services do not apply to proxies they decline to vote. When using ISS’ services, you will not receive proxy materials or annual reports related to securities or other property. In the case where ISS declines to vote, you will not receive proxy materials and the proxy will not be voted.

For any corporate proposal (for investment companies registered under the Investment Company Act of 1940, including mutual funds, closed-end funds, ETFs, and UITs) which does not require a proxy (e.g., tender offers or repurchase offers), neither we nor your adviser will exercise discretion in choosing an option on the proposal. Instead of exercising discretion, we will refrain from acting and these positions will be treated as unvoted. As an example, in the case of a repurchase offer by a fund, your shares will not be offered for repurchase by the fund.

You have the ability to rescind the proxy voting authorization by providing written instruction to us appointing either yourself or a third party authorized to act on your behalf. You may not delegate proxy voting authority or authority to exercise discretion on reorganization proposals to us and we will not be obligated to render any advice or take any action with respect to information related to securities or the issuer of such securities held in the Account. Information regarding ISS’ services and its U.S. Proxy Voting Guidelines are available via ISS’ website (<https://issgovernance.com/policygateway/voting-policies>). We may change the third party proxy voting service provider and will not be deemed to have or to exercise proxy voting responsibility or authority by virtue of such action.

If you hold any Excluded/Non-Program Assets within your Account, we will forward all proxy solicitations to you for action with regards to those specific securities.

**For Client Directed Advisory Programs** (i.e., Asset Advisor and CustomChoice), if we become aware of proxy voting in connection with a specific security, our obligations will be limited to forwarding to you any materials or other information regarding the solicitation.

**For Private Advisor Network Accounts**, except where you have selected a Single Strategy managed by a Discretionary Manager, you delegate proxy voting authority to ISS as described above. In such cases where you have selected a Single Strategy managed by a Discretionary Manager, you direct us to forward this information to the Discretionary Manager and you authorize the Discretionary Manager to take such action (or refrain from acting). Likewise, if trading authority is allocated to a Discretionary Manager, you direct us to forward reorganization information related to securities, or the issuer of securities, held or formerly held in the Manager’s allocation to the

Discretionary Manager. Additionally, you authorize the Discretionary Manager to act (or refrain from acting) on such reorganization information. You have the ability to rescind these authorizations by providing written instructions to us appointing yourself or a third party authorized to act on your behalf.

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

All Clients must provide information on their investment objectives, financial circumstances, risk tolerance, and any restrictions they wish to impose on investment activities in their Account(s). We will notify you in writing at least annually to update your information and indicate if there have been any changes in your financial situation, investment objectives, or instructions; and you agree to inform us in writing of any material change in your financial circumstances that might affect the manner in which your assets should be invested. Your Financial Adviser will be reasonably available to you for consultation on these matters and will act on any changes deemed to be material or appropriate as soon as is practical after we become aware of the change.

With the exception of Private Advisor Network Program Accounts or some P-Summit Wrap Accounts, only Investment Adviser Representatives of PFS serve as Portfolio Managers for our Wrap Programs. 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.

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

Only Investment Adviser Representatives of PFS serve as Portfolio Managers for P-Summit, Summit II, and PIM Accounts. There are no restrictions placed on your ability to contact and consult with your Portfolio Manager(s). You are encouraged to contact your Investment Adviser 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.

On August 25, 2016, without admitting or denying the findings, the Firm consented to the entry of an Order (File No. 3-17502) by the United States Securities and Exchange Commission (the "SEC") Instituting Cease-and-Desist Proceedings, Making Findings, and Imposing a Cease-and-Desist Order (the "order"). The Order states that from September, 2011 to October 1, 2013, in reliance on F-Squared Investment, Inc.'s ("F-Squared") false statements, Prospera's AlphaSector advertisements falsely stated that F-Squared had assets invested in the AlphaSector strategy from April 2001 to September 2008, and that the track record for these investments had significantly outperformed the S&P 500 Index during the period.

The Order also states that the Firm took insufficient steps to confirm the accuracy of F-Squared's AlphaSector performance data for this period and failed to obtain sufficient documentation to substantiate F-Squared's advertised performance, resulting in the Firm violating Sections 206(4) and 204(a) of the Advisers Act and Rules 206(4)-1(a)(5) and 204-2(a)(16) thereunder. The Order requires the Firm to cease and desist from committing or causing any violation of the above-referenced provisions and to pay a \$100,000 penalty to the SEC. All legal and disciplinary events for PFS and its supervised person can be accessed on the FINRA website at [www.finra.org/brokercheck](http://www.finra.org/brokercheck) or the SEC website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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

PFS, the Broker-Dealer. As mentioned above in 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 also 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 Services, Inc. ("PLA"). 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 PLA. 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 various advisory 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 all of its managed program accounts back to the accounts paying such 12b-1 fees. Please see throughout this document 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 Summit II, Asset Advisor, Custom Choice, and Private Investment Management Programs do not employ any Third-Party Investment Advisers. However, the Private Advisor Network and P-Summit do. Information regarding the specific criteria used in evaluating and/or selecting Third-Party Investment Advisers or the underlying investments for inclusion in the Private Advisor Network Program Account is included in the "Portfolio Manager Selection and Evaluation" section above and P-Summit Wrap third party managers much be approved by PFS.

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

**Code of Ethics.** 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.

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.

Our Code of Ethics is designed to ensure our business activities are performed with the highest possible standards of ethics and business conduct, and to comply with all applicable laws, rules, and regulations that govern our businesses. Key requirements of our Code of Ethics are summarized below:

Conduct all aspects of our business activities in an honest, ethical, and legal manner, and in accordance with all applicable laws, rules and regulations, and our policies and procedures.

Provide accurate and complete information in dealings with Clients and others, including disclosure of conflicts of interest when they exist.

Prepare and maintain accurate business records.

Refrain from improper disclosure or misuse of confidential Client information and material, non-public information. PFS protects the private, personal, and proprietary information of Clients and others.

Avoid conflicts of interest in personal and business activities.

Rules specific to personal trading.

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

Participation or Interest in Client Transactions. Under the Programs, we are generally appointed as sole and exclusive broker by you with respect to the referenced Account for the execution of transactions. Our Program Fee or Management Fee covers transaction costs when transactions are executed through us. On occasion, Clients designate, or the law requires, the use of other brokers. Discretionary Managers within our offered Programs also elect to execute transactions with other firms as they deem appropriate, taking into account a number of factors such as best execution, research services, and other qualitative factors. Certain Managers elect to execute all, or a majority of their transactions with other firms based on these factors. When transactions are executed with other firms, including transactions executed through our affiliates, the cost of execution is imbedded in the price of the security. Any imbedded execution costs on trades done away from us are in addition to our Program Fee and Platform Fee and could increase your overall cost. Discretionary Managers are required to consider these additional costs when reviewing their best execution responsibilities in determining whether to trade through us or another firm, however, as stated, there are other factors that also impact their decision in where to place a trade. Discretionary Managers on WFA Programs have provided WFA with estimates around volume and additional costs related to trading with other broker-dealers. This information can be found in the legal disclosures section of the WFA public website under "SMA Trade Away Disclosure" (<https://www.welsfargoadvisors.com/disclosures/trade-away-disclosure-for-public-solicitable-nonsolicitable.pdf>).

In connection with these transactions, we act as agent or, where permitted by law, principal (including instances wherein we are acting as underwriter or selling group members). We effect and execute brokerage transactions, including on a national exchange, as permitted by current provisions of Section 11(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and rules promulgated thereunder including any future amendments or changes to such statutes and rules.

With respect to cash sweep vehicle investments, you will receive disclosures from the applicable clearing firm regarding their cash sweep vehicles and the fees and conflicts inherent in these investments. These disclosures are also contained in the prospectuses for the money market funds in which you invest and in our Disclosure Documents and Client Agreements, as applicable. Additional information and disclosures are provided below under the section entitled "Cash Sweep Program".

We have certain restrictions, internal procedures, and Client disclosures regarding conflicts of interest that we have with respect to our participation or interest in your transactions. We communicate our policies and procedures related to participation in Client transactions to Associated through our compliance policies and procedures manuals and Program-specific policy guidelines.

**Personal Trading.** We maintain policies and procedures to mitigate conflicts of interest between transactions in our Associates' personal investment Accounts, including Accounts of their immediate family members and transactions in our Clients' Accounts. To ensure Associate trading requirements are observed, certain Associate trading activity is subject to pre-approval. All Associates are subject to regular review by their supervisors, independent oversight by our Compliance Department, and systemic controls that automatically restrict entry of certain orders and generate related surveillance reporting.

#### 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.

Program services include review and monitoring of your Account by our personnel and facilities. We will offer you with an annual report of your portfolio's performance and it will also be available to you on an ad hoc basis. This will include a statistical presentation of the performance of your Account(s), based on the information in our records, and on-going comparisons with selected industry indices or benchmarks. Normally, the periodic portfolio monitoring report is calculated based on the activity of the Account since its inception into our Program.

We will transmit the following to you: trade confirmations reflecting all transactions in securities, and at least a quarterly statement of your Account, if there is no activity to warrant a monthly statement. For FA Directed Programs, you have the options to receive periodic statements of Account activity in lieu of transaction-by-transaction confirmations to the extent permitted by Rule 10b-10 under the Exchange Act.

When you open a Program Account, your investment objectives and strategy are reviewed for consistency with each Program's guidelines. As applicable, we examine adherence to criteria and Program guidelines on security selections, concentration, diversification, activity, and restrictions. Our reviews are performed by the branch office manager, and to the extent applicable, home office personnel, who are assisted by various data processing reports, as the review relate to their supervisory and oversight responsibilities, respectively. We review these guidelines periodically and can modify them without notice.



## **Prospectus Delivery**

With respect to certain Advisory Programs through which WFA or a Discretionary Manager has investment discretion over the day-to-day management of assets in an Account, the firm with such discretion is authorized to accept on your behalf delivery of the prospectuses for funds registered under the Investment Company Act of 1940 (including mutual funds, closed-end funds, UIT's, and ETFs). If WFA or a Discretionary Manager accepts delivery of prospectuses on your behalf, WFA will generally not deliver a prospectus directly to you unless you request one. You may obtain a prospectus at any time by contacting your Financial Adviser. Notwithstanding the authorization described in this paragraph and apart from any requests you may make for prospectuses, WFA or a Discretionary Manager may, in its sole discretion, choose to deliver prospectuses directly to you.

## **Client Referrals and Other Compensation**

**Client Referrals.** From time to time, we initiate incentive programs for our Associates, including FAs. These programs may compensate them for attracting new assets and Clients, referring business to our affiliates (such as referrals for mortgages, trusts, or insurance services) or other FAs, promoting investment advisory services and promoting green initiatives (such as raising Client awareness of paperless option). We may also initiate programs that reward Financial Advisors who meet total production criteria, length of service requirements, participate in advanced training, and improve Client service.

Financial Advisors who participate in these incentive programs may be rewarded with cash and/or non-cash compensation, such as deferred compensation, bonuses, training symposiums, and recognition trips. Portions of these programs may be subsidized by external vendors and/or our affiliated, such as mutual fund companies, insurance carriers, or investment advisers. Therefore, Financial Advisors and other Associates have a financial incentive to recommend programs and services included in these incentive programs over other available products and services we offer.

We also enter into arrangements with other persons to whom we pay compensation for referrals to our Advisory Programs. This compensation is generally in the form of a percentage of the fees described in the Program contracts. The details of such arrangements and the amount of compensation will be described in a separate disclosure provided at the time of such referrals.

From time to time, we compensate Associates other than Financial Advisors for referrals of possible Clients to the Programs. Our Financial Advisors, not the referring Associate will make the actual presentation and solicitation of these services. The referral compensation takes the form of a payment to the Associate of a percentage of the fees described in the Program's contracts and results in no additional fees to you or other Clients.

**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 in P-Summit Wrap 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.

PFS also reduces internal administrative fees for investment advisors as they grow total assets in P-Summit, P-Summit Wrap, or Summit II accounts. This is a conflict for them to recommend these programs versus other programs that may be more appropriate. 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 Wells Fargo for WFA Programs, 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 and Wells Fargo based on client assets held in Pershing or Wells Fargo 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, Wells Fargo, and NFS that it believes is beneficial to its clients, PFS's clearing relationships with Pershing, Wells Fargo, and NFS provides PFS's broker-dealer with substantial economic benefits by using itself as the broker-dealer and Pershing, Wells Fargo, and NFS as the clearing firm for P-Summit, WFA Programs, 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 client accounts through Pershing or Wells Fargo. This program along with the Pershing and Wells Fargo FDIC cash balance program revenue sharing creates substantial financial benefits for PFS as discussed elsewhere in 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 and Wells Fargo as its clearing firms 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, Summit II, and WFA Program 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 elsewhere in this Brochure 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 and Wells Fargo FDIC cash balance program create substantial financial benefits for PFS, Wells Fargo, Pershing and NFS. Please see the "Services, Fees, and Compensation" section of this Brochure for a detailed description of the compensation and associated conflicts that will apply to clients who participate in the Program.

**Non-purpose Loan Program.** PFS offers a non-purpose loan ("NPL") program that enables clients to collateralize certain accounts to obtain secured loans through Pershing, Wells Fargo, 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 shares this compensation with its advisors; therefore, an advisor does 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 sets the interest rates for its Wells Fargo compatible program, which is also a conflict to recommend the Wells Fargo lending program.

**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.

### **Brokerage Practices**

PFS renders investment advice to a large majority of its advisory clients on a discretionary basis pursuant to written authorization granted by the client. PFS maintains a primary clearing relationship for the execution of client transactions with WFCS as the account custodian. PFS maintains secondary clearing relationships for the execution of client transactions with Pershing and NFS as the account custodians. In some cases, PFS will approve the use of other account custodians for its advisory accounts. Substantially all of PFS's advisory clients must select PFS as the broker/dealer of record and WFCS as the clearing firm for their PFS managed accounts. WFCS, NFS, and Pershing offer their broker/dealer clients substantial financial strength and stability, economies of scale, and reliable technology.

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 WFCS that it believes is beneficial to its clients, PFS's clearing relationship with WFCS provides PFS's broker/dealer with substantial economic benefits by using itself as the broker/dealer and WFCS as the clearing firm for its Summit accounts, or recommending WFCS programs, rather than an unaffiliated broker/dealer. For example, PFS adds a markup to the account charges and fees that are assessed to PFS client accounts as described in Item 5 of this Form ADV. Additionally, PFS receives lowered account administration costs from WFCS when total PFS account values at WFCS reach certain thresholds. PFS also maintains a FDIC sweep program with WFCS as described below. This program creates substantial financial benefits for PFS and WFCS when recommending clients hold cash. PFS's agreement with WFCS also provides that WFCS shall pay to PFS incentive credits for reaching certain net flow percentage asset targets on new assets. 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 WFCS as its clearing firm for trade execution and custody over other firms that do not or would not provide these incentives to PFS. WFCS also provides PFS with substantial annual retention payments if PFS maintains its relationship with WFCS. This is a conflict to recommend WFCS as your custodian.

PFS's clearing relationship with Pershing includes an Insured Bank Deposit Program that shares revenue on FDIC client cash balances creating a conflict when PFS recommends a client hold cash positions. This program is described in more detail below. PFS also adds a markup to the account charges and fees that are assessed to PFS client accounts held with Pershing as described in Item 5 of this Form ADV. 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 WFCS as its clearing firm for trade execution and custody over other firms that do not or would not provide these incentives to PFS.

Additionally, by using itself as the broker/dealer for its accounts, PFS may be unable to achieve the most favorable execution for client transactions, which may cost clients more money. Further detailed discussion of the substantial economic benefits PFS receives from its relationship with WFCS can be found throughout this Brochure. 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.

Under the Programs, you will generally appoint us as sole and exclusive broker with respect to the reference Account for the execution of transactions which we may execute through our affiliate and from which such affiliate will derive benefits, including benefits as a result of increased trading volumes. In connection with these transactions, we act as agent or, where permitted by law, principal (including instances where we or an affiliate are an underwriter or selling group member). You authorize us to effect and execute brokerage transactions, including on a national exchange, as permitted by current provisions of Section 11(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and rules promulgated under that Act, including any future amendments or changes to such statutes and rules. Our Portfolio Managers have the ability to purchase securities for their own accounts that they also purchase for their Clients.

As a matter of policy, we do not execute principal trades or agency cross transactions in these advisory Programs, with the exception of the Asset Advisor Program. In the Asset Advisor Program, principal trades are permitted in non-IRA and non-ERISA (Employee Retirement Income Security Act of 1974) Accounts when additional requirements are met. Although in some instances, we are able to provide a more favorable market price to you if we participate in a principal trade or an agency cross transaction with Client Accounts, we only do so when consistent with our obligations to provide best execution, due to regulatory requirements when executing such transactions. Therefore, with the exception of certain Asset Advisor Clients, you will generally not have access to new issues or syndicate offerings in these Accounts. You do have the ability to make such purchases in a retail brokerage Account, and you should be aware that they will be subject to the customary fees and commissions charged for such Accounts.

When you place an indication of interest in an Equity IPO or other offering, there are no guarantees that you will receive shares in the offering. PFS, in its sole discretion, determines how to allocate shares to branch locations,

In the case-by-case exceptions in which we enter into principal trades or agency cross transactions, we will provide specific disclosures and obtain your consent. If the transaction is a principal transaction in which we are a market maker in the security, we provide you with disclosure regarding the capacity in which we are acting and obtain your consent before completing such a transaction. We rely on codes and restrictions in our systems as well as additional software to prevent non-permissible principal trades.

We also have the ability to effect cross-transactions between advisory Client Accounts, where one Client purchases a security held by another Client. Neither we nor any related party receives any compensation in connection with a cross-transaction. We effect these transactions only when we deem the transaction to be in the best interests of both Clients and at prices that we have determined to reflect fair value.

If the transaction is an agency cross-transaction, in which we act as your broker or agent by purchasing or selling securities from or to one of our brokerage Clients, we will obtain your written consent and will provide you with a written confirmation at or before the completion of the transaction which describes its nature, provides information about its date and time and the remuneration that the investment advisor or other person receives as a result. At least annually, we will provide you with a written disclosure statement identifying the total number of such agency cross transactions for your Account during the period, and the total amount of all commissions or other remuneration we received or will receive in connection with these transactions, if any. We generally will not affect agency cross transactions between Clients if we have recommended the security to both Clients.

Principal trades and agency cross transactions are also subject to additional restrictions, procedures, and controls that are in place for other securities transactions in advisory Accounts. As discussed more fully below, we seek to obtain the best execution for each of our advisory Clients.

Limitations exist within Client trading systems and Automated Customer Account Transfer Service ("ACATS") whereby only whole share positions are traded or transferred. If your advisory Account maintains fractional shares of equity securities, we will accommodate the liquidation by trading the, through a Firm principal trading account, while any whole share positions will be liquidated in an agency basis. The price at which the fractional shares sell could, in some instances, differ from the price in which the whole shares trade.

If you are rolling over assets from an employer-sponsored Qualified Retirement Plan ("QRP"), such as a 401(k), to an Individual Retirement Account ("IRA") with us, you should carefully evaluate all the choices which are typically available. These four options include: leaving your assets in your former employer's plan (if permitted), rolling over the assets to your new employer's plan (if permitted), rolling your assets to an IRA with us or another firm, or cashing out the account value. You should consider the following factors, among others, in deciding whether to keep assets in a QRP, roll over to an IRA, or cash out: investment options, fees, and expenses, ability to make penalty-free withdrawals, and differences in creditor protection.

We have a conflict of interest in connection with a rollover of your assets into an IRA and the investment of the assets with us as opposed to leaving the assets in your former employer's plan or electing one of the other options. The conflict arises because we will likely earn no compensation if you were to leave the assets in your former employer's plan or transfer to your new employer's plan. In addition, the costs of maintaining and investing assets in an IRA with us will generally involve higher costs than the other options available to you. While we typically offer a broader range of investment options and services than the employer-sponsored QRP, there are no guarantees that the additional investment options will outperform you're the ones in your employer-sponsored QRP.

If PFS is responsible for a trade processing error, it is PFS's policy to correct the issue as soon as possible and return the Account to the economic position that it would be in absent the error. If correction processing generates a shortfall to the account, we will make the account by paying the shortfall. If correction processing generates an overage (i.e., an amount in excess of what would be in the account if the error had not occurred), PFS retains the overage.

Advisory Client orders are treated with the same priority and procedural flow as non-advisory brokerage trades, except to accommodate the trading restrictions placed on these Accounts with respect to principal trades and agency cross transactions. In order to seek a more advantageous net price, it is our practice to aggregate, when feasible, orders for the purchase or sale of a particular security for the Accounts of several Program Clients for execution as a single transaction. Any benefit of such aggregation generally is allocated pro-rata among the Client Accounts that participated in the aggregated transaction. Client transactions are monitored regularly by branch supervisors and product management personnel monitor Program exceptions as part of their general oversight responsibility for the Programs. In addition, we use system controls and identification to restrict advisory Accounts from being charged commissions. We also regularly review reports to determine if you have been charged commissions in error and correct Accounts where appropriate. Clients who have a brokerage

Account relationship with us unrelated to an advisory service will be charged commissions, fees, and execution costs, if any, in effect for the specific brokerage Account.

The securities traded for you could be traded in one or more marketplaces or employ an alternative trading system ("ATS") to execute fixed income transactions. Consistent with the overriding principle of best execution and subject to applicable regulatory requirements, we use discretion in selecting these marketplaces or ATSs to enter or execute your orders.

As a result of the over-the-counter nature (the lack of a market exchange) of fixed income securities, the available trading methods differ from that of equity securities. Consistent with the overriding principle of best execution and subject to applicable regulatory requirements, we use our discretion in selecting the appropriate ATC and/or broker-dealers with which to execute Client orders. We consider a number of factors when determining where to execute Client orders, including the product type, the liquidity of the market, and the size of the order.

For both equity and fixed income securities, we regularly review transactions for quality of execution, and take action, as appropriate, for price improvement and to fulfill our best execution obligations. At all times, our foremost concern is to obtain the best execution for our Clients, regardless of any compensation factor.

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.

We have policies and procedures in place to ensure that we execute Client orders for the purchase and sale of mutual funds in compliance with the cutoff times established by the mutual fund companies. These times vary, depending on the mutual fund company. At our discretion, we recognize the earliest mutual fund company cutoff time when determining the cutoff time for a particular Client Account. Orders received before the cutoff time will receive that day's closing price, while those after the cutoff time will receive the next day's closing price. If we are unable to obtain a closing price for your order of a mutual fund, we will not execute any trades in that mutual fund for your Account on that day.

From time to time, through our advisory services and Programs, our Financial Advisors assist retirement plan Clients with various aspects of their plans, including the selection of investment companies for review as investment options, assisting in evaluation and monitoring of the performance of fund investments, or any combination of these or similar services. In those cases where a Plan determines to utilize funds in connection with a third-party administrator ("TPA") and where advisory fees are paid on the investment, we and your FA will receive a share of the fee as compensation for the services provided. The specific fee arrangement will typically be disclosed to the Plan pursuant to the TPA's contract with the Plan. For these arrangements with TPAs, the transactions in the subject investment company shares are not affected through us, but rather directly with the fund through its distributor. All shares of investment companies are subject to fluctuation of principal and yield depending on market and/or interest rate risk.

We will not sell your information to other companies for marketing purposes. We employ strict security standards and safeguards to protect your personal information and prevent fraud. In addition, we will continue to protect your privacy even if you are no longer our client.

Consistent with our privacy policies and applicable law, PFS and its affiliates provide access to Client personal information to affiliated and third-party service providers throughout the world. When Client information is accessed, we maintain protective measures as described in our privacy policies and notices. For more information, please see our Privacy Statement.

For more information, please read our Privacy Statement or call your Financial Adviser. With your written permission, obtained via Client Agreement or other written communication, we have the right to provide your information electronically to your investment adviser and/or agent of such adviser. We reserve the right, at our discretion, to refuse to provide such requested information. Furthermore, in compliance with our Privacy Policy, we accept your instructions to discontinue providing such 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.

### **Cash Sweep Program**

**WFCS FDIC Sweep Programs (“FDIC”).** WFCS offers a FDIC cash sweep program (“Program”). The Program is the core account investment vehicles used to hold your cash balances while awaiting reinvestment for eligible accounts. The cash balance in your eligible PFS accounts will be deposited automatically or “swept” into interest-bearing FDIC-insurance eligible Program deposit accounts (“Deposit Accounts”) at one or more FDIC-insured financial institutions including WFCS’ affiliate Wells Fargo Bank. The Program creates financial benefits for PFS and WFCS. We will receive revenue sharing from WFCS in connection with the Program (equal to a percentage of all participants’ average daily deposits at the Program Banks). Amounts will vary but in no event will this revenue sharing be more than 2.50% on an annualized basis as applied across all Deposit Accounts. The amount of fee received will affect the interest rate paid to customers by the Program Bank. From time to time, if the fee increases, you will receive notification of any such change.

The Program Banks use Program Deposits to fund current and new lending and for investment activities. The Program Banks earn net income from the difference between the interest they pay on Program Deposits and the fees paid to us and the income they earn on loans, investments, and other assets. As noted above, the Program Banks may pay rates of interest on Program Deposits that are lower than prevailing market interest rates that have been paid on accounts otherwise opened directly with the Program Bank. Program Banks do not have a duty to provide the highest rates available and may instead seek to pay a low rate. Lower rates will be more financially beneficial to a Program Bank. There is no necessary linkage between bank rates of interest and the highest rates available in the market, including any money market mutual fund rates. By comparison, a money market mutual fund generally seeks to achieve the highest rate of return (less fees and expenses) consistent with the money market mutual fund’s investment objective, which can be found in the fund’s prospectus.

The revenue received by PFS may be greater than revenues generated by sweep options at other brokerage firms and may be greater than other core account investment vehicles currently available to you or possible core account investment vehicles that we have used in the past or may consider using in the future. Because of the fees and benefits described above, the Program may be more profitable to us than other available sweep options, if any. Due to this revenue sharing, there is a conflict when PFS recommends client maintain cash in their accounts as opposed to investing in a money market fund. This revenue sharing with PFS may be eliminated or compressed based on declining interest rates.

**Pershing Insured Bank Deposit Program (IBD).** The Pershing Insured Bank Deposit Program pays PFS a percentage of the interest earned on client FDIC cash sweep balance. After the participating bank removes its profit, Pershing credits itself a fee and pay the remainder to PFS.

The IBD Banks use IBD Deposits to fund current and new lending and for investment activities. The IBD Banks earn net income from the difference between the interest they pay on IBD Deposits and the fees paid to us and the income they earn on loans, investments, and other assets. As noted above, the IBD Banks may pay rates of interest on IBD Deposits that are lower than prevailing market interest rates that have been paid on accounts otherwise opened directly with the IBD Bank. IBD Banks do not have a duty to provide the highest rates available and may instead seek to pay a low rate. Lower rates will be more financially beneficial to a IBD Bank. There is no necessary

linkage between bank rates of interest and the highest rates available in the market, including any money market mutual fund rates. By comparison, a money market mutual fund generally seeks to achieve the highest rate of return (less fees and expenses) consistent with the money market mutual fund's investment objective, which can be found in the fund's prospectus.

The revenue received by PFS may be greater than revenues generated by sweep options at other brokerage firms and may be greater than other core account investment vehicles currently available to you or possible core account investment vehicles that we have used in the past or may consider using in the future. Because of the fees and benefits described above, the IBD may be more profitable to us than other available sweep options, if any. Due to this revenue sharing, there is a conflict when PFS recommends client maintain cash in their accounts as opposed to investing in a money market fund. This revenue sharing with PFS may be eliminated or compressed based on declining interest rates.

### **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 in this Brochure 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.