MODEL WEALTH PORTFOLIOS

focus on your future

LPL Financial Research

LPL Financial

Your Strategic Partner: LPL Financial Research

The priority of the Research team at LPL Financial is to deliver optimal performance to your Model Wealth Portfolio.

Our Approach

Your investment strategist consists of seasoned and accomplished industry veterans, comprising one of the largest and most experienced research groups among independent brokerage firms. The team works continuously to interpret and adjust to the latest economic and financial developments to help ensure your Model Wealth Portfolio benefits from consistent monitoring and meaningful, current information.

At LPL Financial, our independence places the Research team in a unique position to access a broad universe of mutual funds, closed-end funds (CEFs), exchange-traded funds (ETFs), and exchange-traded notes (ETNs). We work side-by-side with your advisor and we have no business conflicts that prompt us to recommend (or reject) any investment product. Our decisions are unbiased and based solely on whether the investment fits a specific need or requirement.

We focus our greatest strengths on building and monitoring portfolios for investors. The collaborative process between members of our team with specific experience ensures that all of our portfolios are well diversified and designed to meet your theme-based goal.

We Believe In…

Constant monitoring of current factors and trends that are impacting the markets. A sampling of these include such variables as U.S. and global economic growth, corporate earnings trends, market sentiment, interest rates, monetary and fiscal policy, and geopolitical concerns.

Understanding the vital details on the ever-changing fundamental, valuation, and technical inputs to the different sectors and asset classes. We believe that prices matter and spend time understanding which investment opportunities offer a risk-reward tradeoff.

Evaluating consolidated views from the hundreds of portfolio managers we recommend and monitor. This valuable input provides an important complement to our ideas and investment process.

Utilizing sophisticated data and analysis tools to help make solid decisions. Quantitative analysis provides real-time, technical overlay to our process on asset allocation and security selection, helping us to not only make the correct decision on which asset class or security to allocate to, but also providing us with the optimal time to make that decision.

The Investment Team

Employing time-tested, rigorous analytical methods strengthened by an environment that fosters intellectual curiosity, thought leadership, and integrity — the priority of the Research team at LPL Financial is to deliver optimal performance to your Model Wealth Portfolio.

- **Portfolio Strategy:** Our portfolio strategists understand that whether we are heading into a recession or bull market, it is important to make decisions that can work with the current environment while keeping an eye on conditions down the road. This team works to determine the appropriate areas of the market in which to invest on an asset allocation basis. They continuously monitor the ideas held in the portfolios and those that are up-and-coming to ensure that we have the best ideas in the portfolio at all times.
- **Investment Strategy:** Our Investment Strategy team leads the firm's due diligence efforts focusing on mutual funds, separately-managed accounts, variable annuity subaccounts, exchange-traded products, and alternative investments. This team follows a thorough and market-tested investment discipline and understands that while investment products that comprise your portfolio may vary, what differentiates a strong performer from the pack is demonstrating a repeatable process and proven, consistent results through multiple economic cycles. Understanding how a manager or security performs in various conditions is a key to our recommendation process.
- **Research Analytics:** Since our recommendations within Model Wealth Portfolios are implemented within an all-inclusive model, it is important that we identify the underlying securities in which an investment targets to invest. The Analytics team uses statistical tools such as regression, optimization, and attribution analysis to determine the value that an investment has added within a particular asset class, sector, or industry over time.

LPL Financial Research continues to set the industry standard for independent and unbiased investment research across a wide array of investment product types. We focus on building and monitoring portfolios for you. Our collaborative process offers a research platform that covers everything from the nuts and bolts of portfolio construction and manager due diligence to delivering guidance and market updates to you. Our process is an ever-changing one — as we continue to seek out new and different ways to ensure our advice is industry-leading.

The Process

Factors for a Sound Decision-Making Process

Fundamental: Any factor that could be considered important to the understanding of a particular investment. Fundamentals are usually considered outside the context of the financial markets as a whole, instead focusing on the specific investment.

Valuation: The value or worth of a particular investment such as an asset class, sector, industry, or company.

Technical: Price trends used to predict future price movements of a particular investment.

The LPL Financial Research team believes that fundamental, valuation, and technical factors form the basis of a sound investment decision-making process. Relying heavily on these three factors, the team uses a diligent process for designing the asset allocation and security selection framework for the portfolios.

Asset Allocation: Building One Portfolio at a Time

The investment climate today offers a sea of opportunities and challenges. We focus on understanding when the market environment is rewarding or penalizing which helps to set the framework of the asset allocation to either a defensive or opportunistic tone.

LPL Financial Research believes that portfolio building starts with a sound, tested asset allocation process. We construct specific portfolios for each of the different themes using an overarching asset allocation process as a guide. All the portfolios must be well-diversified among broad investment types and have the most optimal mix to meet varying investment objectives.

Our asset allocation process is a multi-disciplined, collaborative effort. Each week potential investment opportunities are analyzed with the goal of augmenting longer-term perspectives with shorter-term asset allocation opportunities.

Security Selection: Populating the Asset Classes

Once asset allocation has been established, the next step is to populate each portfolio with securities. We operate on a shared philosophy that diligent fundamental research and a well-defined analytical process, rigorously adhered to, is the key to identifying, recommending, and monitoring investment opportunities that offer the potential for superior long-term, risk-adjusted returns.

The same basic principles are used when selecting both exchange-traded products and mutual funds. When applying qualitative analysis, we examine them differently. The structure of the two types of securities dictates we use different criteria.

Steps of the Security Selection Process

Step 1 – Desired Security Criteria Determined by Asset Allocation Team

Step 2 – Initial Screening

- Develop Search Criteria
- Conduct Targeted Quantitative Screening

Step 3 – Quantitative Analysis

- Perform exhaustive quantitative review
- Utilize holdings- and returns-based statistics

Step 4 – Qualitative Analysis

Exchange-Traded Product Review

- Determine use of active or passive management
- Evaluate available product structures (ETF, ETN, CEF)
- Understand structure relative to underlying index
- Evaluate costs
- Review trading issues (examples: bid-ask spread, trading volume, net assets, liquidity, premium or discount to NAV)

Individual Mutual Fund Review

- Develop an investment thesis
- Review and evaluate key investment personnel and organization
- Analyze performance traits
- Review and understand each step of process and strategy

Mutual Fund Portfolio-Level Review

- Utilize proprietary Scenario Attribution Tool (SAT)
- Analyze 300 different market conditions
- Better understand investment biases
- Insight to improve portfolio diversification

Step 5 – Stress Tests

- Formal presentation and vote of the investment committee
- Search for red flags and anomalies
- Review suitability for models

Step 6 – Final Security Approved and Implemented

At the culmination of this process, your Model Wealth Portfolio may benefit from in-depth research, unbiased recommendations, and an informed asset allocation strategy. In a variety of market conditions, your financial professional has the resources to maintain an unwavering focus on meeting your individual needs.

Portfolio Construction: Putting It All Together

Once the asset allocation is created and the due diligence is done on the individual securities, it is time for portfolio construction. Making sure the combination of securities leads to a strong performing portfolio is the key finishing step in our process. Simply taking a variety of securities from different asset classes and weighting them in a particular manner does not ensure a strong performing portfolio. Analysis must be done on the portfolio as a whole to make sure the end combination is as strong as we can make it.

From the asset allocation strategy to the selection and combination of underlying investments, each portfolio is specifically designed to address the objectives of your investment theme.

Ongoing Monitoring of Portfolios and Underlying Investments

Once the portfolio has been built and implemented, it is continuously tested and monitored to ensure that it remains true to the original goals. Our investment decisions and model portfolios are monitored closely on a daily basis against their benchmarks, peers, and our own internal metrics. This process ensures that the portfolios are positioned correctly for the short-term and long-term with regard to a variety of factors. Knowing how our strategic point of view, tactical asset allocation, and implementation decisions have performed in the past, and more importantly, why they performed the way they did is a critical input to the decision-making process.

Sell Discipline

The sell discipline framework helps take much of the emotion out of the investing process and helps us monitor the risk-return characteristics of our trades on a real-time basis. The sophisticated and in-depth sell discipline is an important part of the risk control and portfolio monitoring process. The sell discipline enables analysts to determine two critical components:

- How long do we wait until we sell an investment that is lagging?; or
- Conversely, how long do we stay with a successful investment idea before taking profits?

The result is that our team can focus on the continued validity of the investment thesis. We monitor such factors as macro variables, valuations, fundamentals, and technicals, among others — to ensure whether the thesis is still valid or if a sell is warranted.

Selecting Your Model Wealth Portfolio

In collaboration with your advisor, you can create an investment strategy that is aligned with your goals and expectations. One of the best ways to pursue your unique financial goals is to align your investment strategy with your vision for the future and feelings about risk, savings, and wealth.

Model Wealth Portfolios are built to specifically meet your changing investment needs as your lifestyle and future goals evolve. LPL Financial Research has designed portfolios to allow you to focus your wealth on what is most important to you, such as protecting your wealth in a down market, minimizing taxes, trying to capture excess returns, or generating retirement income. The portfolios are thoughtfully constructed and seek to benefit from the combination of professionally designed asset allocation strategies and rigorous investment selection. This process helps position each portfolio to benefit from long-term outlooks and short-term opportunities. Special emphasis is placed on the risk-reward characteristics of the investments.

LPL Financial Research Model Wealth Portfolio Offerings

Investment Theme	Portfolio Name	Implementation Time Frame	Investment Vehicle
Capital Appreciation	Diversified Diversified Plus	Strategic or Tactical	Mutual Funds or Exchange-Traded Products*
Income Generation	Income Focused	Tactical	Mutual Funds
Opportunistic	Alpha Focused Diversified Alpha Focused Diversified Plus Tactical Opportunities	Tactical	Mutual Funds or Exchange-Traded Products
Risk Aware	Absolute Return Downside Risk Aware Diversified Downside Risk Aware Diversified Plus	Tactical	Mutual Funds or Exchange-Traded Products
Socially Conscious	Socially Responsible Investing	Tactical	Mutual Funds
Tax Conscious	Tax Aware Diversified Tax Aware Diversified Plus	Strategic	Mutual Funds

*Exchange-traded products are defined as exchange-traded funds (ETFs), exchange-traded notes (ETNs), and closed-end funds (CEFs).

Theme-Based Investing

LPL Financial Research Portfolios Target What's Most Important to You

Portfolio	Description	Key Features
Diversified	These portfolios seek to promote capital appreciation while taking a reasonable amount of risk to achieve that goal. These portfolios are subject to minimal constraints, which allows for a relatively pure implementation of our investment advice.	■ Depending upon the implementation schema you choose, the model will only hold mutual funds or a combination of exchange-traded funds, exchange-traded notes, and closed-end funds. ■ These portfolios are managed tactically or strategically, depending upon your investment time frame beliefs or trading and tax concerns.
Diversified Plus	These portfolios are the most pure implementation of our investment advice as there are no constraints. These portfolios seek to promote capital appreciation while taking a reasonable amount of risk to achieve that goal.	■ Depending upon the implementation schema you choose, the model will only hold mutual funds or a combination of exchange-traded funds, exchange-traded notes, and closed-end funds. ■ These portfolios are managed tactically or strategically, depending upon your investment time frame beliefs or trading and tax concerns. ■ Additionally, these portfolios can hold securities within any asset class we deem prudent.
Income Focused	These portfolios may be preferable for investors who place a higher priority on income generation. The portfolios seek to maximize return while also focusing on income generation.	■ There is a focus on asset classes that typically generate more income and implement with securities, either broad market or within a specific asset class, that generate higher income. ■ These portfolios tend to utilize more fixed income securities, look to areas of the market that are high dividend payers, and also use opportunistic income-generating securities.
Alpha Focused	These portfolios are suited for more aggressive investors who seek the highest returns relative to a corresponding benchmark. These portfolios are only available in the Aggressive Growth, Growth, and Growth with Income investment objectives.	■ These portfolios have a reduced emphasis on income and may demonstrate higher levels of volatility. ■ These portfolios have a high emphasis on capital appreciation. ■ There is a focus on allocating to more aggressive and opportunistic asset classes and using strategies that are more aggressively positioned and have demonstrated a track record of better relative performance in up markets.
Tactical Opportunities	These portfolios are designed for investors who seek to maximize excess returns over the short run. These portfolios are only available in the Aggressive Growth investment objective.	■ These portfolios may emphasize higher volatility and a higher tolerance for risk. ■ These portfolios seek frequent tactical moves to take advantage of upside breakouts and downside plunges. ■ These portfolios focus on taking advantage of current opportunities in the market.
Absolute Return	These portfolios may be preferable for investors who place a higher priority on maintaining positive rates of return over time. These portfolios are only available in the Income with Moderate Growth investment objective.	■ These portfolios tend to utilize more non-traditional asset classes in order to help provide positive rates of return regardless of the direction of capital markets. ■ There is focus on diversification and lower correlation between asset classes, which tends to result in lower portfolio volatility.
Downside Risk Aware	These portfolios seek to maximize excess return, but are structured more conservatively to provide more protection in the event of a down market. These portfolios are only available in the Growth with Income, Income with Moderate Growth, and Income with Capital Preservation investment objectives.	■ These portfolios may incorporate a greater use of nontraditional asset classes and strategies that have exhibited lower correlation to traditional stocks and bonds. ■ For each asset class in the portfolios, we select investment managers that have passed our conservative criteria and historically demonstrated an ability to provide more protection in the event of a down market.
Socially Responsible Investing (SRI)	These portfolios are designed for investors who favor company practices that promote environmental stewardship, consumer protection, human rights protection, and diversity. Also known as sustainable, socially conscious, ethical, or socially-screened investing, SRI is a broad-based approach to investing that seeks to maximize social good.	■ Managers of these securities perform investment screening based on criteria such as social, environmental, and good corporate governance criteria. ■ Securities focus on shareholder advocacy for social, environmental or governance issues. ■ Managers may look for companies that promote community investing practices.
Tax Aware	These portfolios may be preferable for investors attempting to minimize the impact of taxes.	■ The entire bond allocation will be comprised of municipal bonds, the interest income from which is federally tax-exempt. ■ The portfolios utilize securities that have lower turnover, have significant tax-loss carry forwards, or are active tax harvesters.

Refining Your Model Selection

Addressing Different Time Frames

Model Wealth Portfolios have offerings that are strategic and tactical. Some investors believe in buy-and-hold strategies, and we have designed portfolios to meet those needs. Additionally, if you are tax sensitive or want to minimize trading, these portfolios meet those needs. There are other models that are designed to take advantage of almost every short-term opportunity the markets present. If you want your portfolio to be responsive to those environmental changes, tactically managed models are available.

LPL Financial Research provides advice and implements strategic and tactical asset allocation portfolios. The key difference between these two types of advice is the time frame over which we are targeting investment opportunities.

- **Strategic:** The strategic asset allocation process projects a three- to five-year time period. While the strength of the asset allocation decisions is retested often, we do not anticipate making adjustments until midway through the strategic time frame, which generally is about every two to three years. If significant market fluctuations warrant a change, adjustments may be made sooner.
- **Tactical:** Tactical portfolios are designed to be monitored over a shorter time frame to potentially take advantage of opportunities as short as a few months, weeks, or even days. For these portfolios, more timely changes may allow investors to benefit from rapidly changing opportunities within the market.

Implementing a Diversified Versus Diversified Plus Portfolio

In general, Diversified portfolios should be considered by those investors who seek to hold primarily stocks and bonds, with the occasional nontraditional asset class as needed to help take advantage of market opportunities. Diversified Plus portfolios are more suited to those investors who seek investment opportunities, regardless of asset class, and are comfortable holding esoteric investments.

There are two key differences between Diversified and Diversified Plus portfolios: the types of strategies they hold and the number of holdings they may have.

- **Types of strategies:** Both Diversified and Diversified Plus portfolios hold traditional asset classes. Diversified portfolios hold primarily traditional asset classes. Secondarily, if a nontraditional asset class represents the investment that provides the best means of exploiting a market opportunity, Diversified portfolios will hold them. The nontraditional investments held by Diversified portfolios will be more standard. Alternatively, Diversified Plus portfolios will invest in any asset

There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.

Nontraditional investment mutual fund strategies are subject to increased risks due to the use of derivatives and/or futures. Nontraditional investments may not be suitable for all investors and should be considered as an investment for the risk capital portion of the investor's portfolio. The strategies employed in the management of nontraditional investments may accelerate the velocity of potential losses.

class — including alternative strategy asset classes. Diversified Plus portfolios look equally at traditional and nontraditional asset classes and may hold more esoteric investments.

- **Number of holdings:** Diversified portfolios tend to be steady in their level of holdings. These portfolios tend to remain consistently diversified. Diversified Plus portfolios may have either more or fewer holdings than their Diversified portfolio counterparts, depending upon the opportunities presented by the market. Should many opportunities be present in the market, Diversified Plus portfolios can be constructed using a wider array of asset classes and may include a larger number of targeted investments to gain desired exposures. Alternatively, if there are fewer opportunities, Diversified Plus portfolios will be more concentrated in fewer holdings.

Understanding Which Investment Vehicle Is Right for You

Working with your financial professional, you may choose a portfolio with exchange-traded products, mutual funds, or a combination of both. The following highlights some of the differences between these three investment vehicle types.

Exchange-Traded Products

Exchange-traded products tend to be more targeted and therefore, represent the most specific implementation of our advice.

- Exchange-traded products are defined as exchange-traded funds (ETFs), exchange-traded notes (ETNs), and closed-end funds (CEFs).
- Outperforming the investment objective blended benchmarks remains the primary goal of portfolios utilizing exchange-traded products.
- A greater amount of narrowly focused exchange-traded products may be used to target more precise areas of opportunity that the markets present.
- The tactical versions of these portfolios will experience higher turnover based on the specific model chosen, but in general will be greater than the mutual fund only portfolios that we manage. However, the strategic versions will be more long-term in nature and will likely have less trading than their mutual fund counterparts.
- There are three portfolios that you may choose that only utilize exchange-traded products: Diversified–Tactical, Diversified Plus–Tactical, and Diversified Plus–Strategic.

ETF: A fund that tracks an index, but can be traded like a stock. Because ETFs are traded on stock exchanges, they can be bought and sold at any time during the day (unlike most mutual funds).

ETN: A type of debt security, which combines features of an exchange-traded fund and a bond. ETNs can be traded on an exchange, but also can be held until their maturity date, like a bond.

CEF's (Closed End Funds). A closed-end fund is a publicly traded investment company that raises a fixed amount of capital through an initial public offering (IPO). The fund is then structured, listed and traded like a stock on a stock exchange.

Principal Risk: An investment in exchange-traded funds (ETF), structured as a mutual fund or unit investment trust, involves risk of losing money and should be considered as part of an overall program, not a complete investment program. An investment in ETFs involves additional risks: not diversified, the risks of price volatility, competitive industry pressure, international political and economic developments, possible trading halts, and index tracking error.

Mutual Funds

Portfolios utilizing mutual funds represent a broad array of investment themes.

- Outperforming the investment objective blended benchmarks remains the primary goal of these portfolios.
- Generally, mutual funds are actively managed, so these positions are not as targeted as the exchange-traded product portfolios.
- These portfolios experience low to high turnover depending on the specific portfolio chosen.
- There are a wide array of thematic portfolios designed to meet your specific needs and goals that you may choose that utilize only mutual funds: Diversified, Diversified Plus, Alpha Focused, Downside Risk Aware, Income Focused, Tax Aware, and Socially Responsible Investing.

Combination Portfolios

Portfolios utilizing a combination of exchange-traded products and mutual funds are designed to meet specific needs.

- There are two portfolios to choose from: Absolute Return and Tactical Opportunities.
- Both of these portfolios are managed slightly differently than a traditional portfolio — seeking a set return amount or maximum return, respectively — so the ability to use several types of investments is key.

Investing in mutual funds involve risk, including possible loss of principal. Investments in specialized industry sectors have additional risks, which are outlined in the prospectus.

IMPORTANT DISCLOSURES

The opinions voiced in this material are for general information only and are not intended to provide any specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing.

Stock investing involves risk including possible loss of principle.

Past performance is no guarantee of future results.

Correlation is a statistical measure of how two securities move in relation to each other.

Investors should consider the investment objective, risks, charges and expenses of the investment company carefully before investing. The prospectus contains this and other information about the investment company. You can obtain the prospectus from your financial advisor. Read carefully before investing.

Asset allocation does not ensure a profit or protect against a loss.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise, are subject to availability, and change in price.

The fast price swings of commodities will result in significant volatility in an investor's holdings.

Structured products typically have two components; a note and a derivative with a fixed maturity. They are complicated investments intended for a "buy and hold" strategy and offer protection from downside risk in exchange for forgoing some upside potential to achieve that protection. Principal protection may vary from partial to 100 percent.

Investing in structured notes is not equivalent to investing directly in the underlying securities or index and carry risks such as loss of principal and the possibility that you may own the referenced asset at a lower price, due to economic and market factors that may either offset or magnify each other. At maturity, if the derivative turns out to be valuable, the investor can gain exposure to the upside of that index.

Municipal bonds are subject to availability, price, and to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rate rise. Interest income may be subject to the alternative minimum tax. Federally tax-free but other state and local taxes may apply.

This information is not intended to be a substitute for specific individualized tax, legal or investment planning advice. We suggest that you discuss your specific tax issues with a qualified tax advisor.

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