

WHO WE ARE: RESEARCH AS DUE DILIGENCE PROVIDER

Part of understanding who we are at LPL Research comes from understanding our organizational and decision-making structure. However, perhaps even more important to answering the question of who we are is to understand:

- What is our investment philosophy?
- What is our motivation?
- What are our core beliefs?

LPL Research serves the following primary roles:

- Share economic and market insights
- Provide due diligence and asset allocation advice
- Manage discretionary portfolios
- Be a thought leader and creative luminary

DUE DILIGENCE

In our role as a due diligence provider we believe that not all investment managers and products are appropriate for everyone. As headlines have made clear to all of us, some investments are not appropriate for anyone—as they are based on fraud or fiction. Some investments appear sound, but are really based on luck instead of skill—and, at some point, luck will run out. Other investments are appropriate for those who understand the complexities and issues involved and are financially and emotionally willing to take on those risks. Our goal is to help vet the vast universe of available products and provide guidance about which ones we believe are sound and what types of investors they would appeal to.

A plethora of investment products are available to investors including mutual funds, separately managed accounts (SMA), exchange-traded products (ETP), variable annuities, third-party investment advisors, and alternative investments—all of which have many moving parts that can be a daunting task to track and monitor. In terms of diligence, we provide two levels of oversight:

- For relatively more complex products, we approve them prior to them being available to help mitigate risk.
- For other products, we provide recommendations to help narrow down the universe of available products.

Our role as due diligence provider is primarily carried out by our 20-person due diligence team based in Boston and Charlotte. Our diligence processes are predicated on three key tenets:

- Align depth of review with situational risk of the product.

- Combine traditional due diligence processes with thoughtful investment insights to help avoid buying a good product at the wrong time.
- Initial diligence is essential, but ongoing diligence and oversight is critical.

To meet these goals, our analysts conduct traditional due diligence, which consists of both quantitative and qualitative research. Our primary focus is to learn about the firm, portfolio managers, and other investment personnel, as well as their investment strategy and process. We use both proprietary

and third-party analysis and tools to accomplish these goals. Our traditional investment due diligence team provides in-depth due diligence and recommendations on open-end mutual funds, SMAs, and variable annuity subaccounts. Additionally, this team approves all other ETPs, SMAs, third-party investment advisors, and outside strategists. Because of the different nuances involved, we have a diligence team dedicated to illiquid or alternative investments that provide the approvals and oversight of these products. ■

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.

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.

An investment in exchange-traded funds (ETF), structured as a mutual fund or unit investment trust, involves the 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.

There is no assurance that the techniques and strategies discussed are suitable for all investors or will yield positive outcomes. The purchase of certain securities may be required to effect some of the strategies. Investing involves risks including possible loss of principal.

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 alternative investments may accelerate the velocity of potential losses.

Variable annuities are long-term, tax-deferred investment vehicles designed for purposes and contain both an investment and insurance component. They are sold only prospectus. Guarantees are based on claims paying ability of the issuer. Withdrawals made prior to age 59 1/2 are subject to a 10% IRS penalty tax and surrender charges may apply. Gains from tax-deferred investments are taxable as ordinary income upon withdrawal. The investment returns and principal value of the available sub-account portfolios will fluctuate so that the value of an investor's unit, when redeemed, may be worth more or less than their original value.

An annuity is a financial product sold by financial institutions that is designed to accept and grow funds from an individual and then, upon annuitization, pay out a stream of payments to the individual at a later point in time. Annuities are primarily used as a means of securing a steady cash flow for an individual during their retirement years.

This research material has been prepared by LPL Financial LLC.

To the extent you are receiving investment advice from a separately registered independent investment advisor, please note that LPL Financial LLC is not an affiliate of and makes no representation with respect to such entity.

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