



# PROSPERA

## FINANCIAL SERVICES

### Form ADV Part 2A Disclosure Brochure

Date of Brochure: September 30, 2024

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This Brochure provides information about Prospera Financial Services, Inc. and our qualifications and business practices. If you have any questions about this Brochure's contents, 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 us is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can view our information on this website by searching for "Prospera Financial Services" or searching by our firm's CRD number (10740) or our SEC number (801-65845).

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

**ITEM 2 – SUMMARY OF MATERIAL CHANGES**

The following is a summary of the material changes made to this Brochure since the last annual update on September 30, 2023:

- Added the Black Diamond client access program.
- Added Estate Planning third party services.
- Added SEI Asset Management Programs.

You may request a copy of our current Brochure at any time, without charge, by calling at 972-581-3000. Additional information about Prospera is available via the SEC’s Investment Adviser Public Disclosure website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC’s website also provides information about any persons affiliated with Prospera who are registered, or are required to be registered, as Investment Adviser Representatives of Prospera.

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## ITEM 4 – ADVISORY BUSINESS

### Introduction, Firm History and Owners

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.

We are registered with the Securities and Exchange Commission (SEC) as an investment advisor firm and as a broker-dealer firm. In our broker-dealer capacity, we are a member of the Financial Industry Regulatory Authority (FINRA) and the Securities Investor Protection Corporation (SIPC). We are wholly owned by Prospera Financial, LLC which in turn is majority indirectly owned and operated by the following who hold the following offices in Prospera Financial:

- David Walter Stringer, Vice-Chairman
- Richard Dean Pascuzzi, Secretary
- Tim Alan Edwards, Chairman

This Brochure is intended to provide you with information regarding our investment advisory services, fee arrangements, qualifications, and business practices that should be considered before becoming our advisory client.

Individuals who are appropriately licensed, qualified or approved as investment advisor representatives with us will be authorized to provide investment advisory services for us. Investment advisor representatives only provide services and charge fees based on the descriptions detailed in this document. However, the exact services you will receive and the fees you will be charged depend on your particular investment advisor representative. Fees also vary depending on your geographic location and/or your selected investment advisor representative. Investment advisor representatives are instructed to consider your individual needs when recommending an advisory platform.

Most of our investment advisor representatives are approved to also provide investment advice in their separate capacity as registered representatives of our dually registered broker-dealer and insurance advice as agents of our affiliated insurance agency Prospera Life & Annuity. When acting as a registered representative, these representatives will charge commissions on a per-transaction basis when implementing their advice for clients, and when acting as an insurance agent, these agents will receive insurance commission and trails when implementing recommending insurance sales for advisory clients. These are conflicts for your Financial Advisors to make insurance or brokerage investment recommendations.

When deciding which, if any, of the advisory programs available through us is appropriate for your needs, you should bear in mind that fee-based accounts, when compared with commission-based accounts, may result in lower costs during periods when trading activity is heavier, such as the year an account is established. However, during periods when trading activity is lower, fee-based accounts may actually result in higher annual costs. The total cost for transactions under a fee account versus a commission account can vary significantly and depends upon a number of factors, such as account size, amount of turnover (number of transactions), type and quantities of securities purchased or sold, commission rates and the client's tax situation. Fee-based accounts also offer ongoing monitoring, a fiduciary standard of care, neither of which are offered in brokerage account, along with an annual meeting. You should have a conversation with your investment advisor representative and read this Brochure carefully as it explains our programs in detail.

Our investment advisor representatives and their branch offices may use marketing names or other names that are held out to the public. Such names are known as "doing business as" or "dba" names. The purpose for using these other names is so that the investment advisor representative can create an identifiable brand that is specific to him or her personally or to their branch office but separate from us. While we allow our investment advisor representatives to use other names, they have been instructed to disclose on advertising and client correspondence that their advisory services and securities are offered through us.

### Advisory Services Tailored to Individual Client Needs

Services are always provided based on individual client needs. This means, for example, that you are given the ability to impose restrictions on your accounts managed by us, including specific investment selections and sectors. Investment advisor representatives work with you on a one-on-one basis through interviews and questionnaires to determine your investment objectives and suitability information. Prospera will provide services that reflect prudence and diligence based on your stated investment objectives, risk tolerance, financial circumstances, and investment needs, without regard to the financial or other interests of us, your financial advisor or any affiliate or related entities.

### Wrap-Fee Program versus Portfolio Management Program

We provide asset management services through both wrap-fee programs and traditional management programs. Under a wrap-fee program, advisory services and transaction services are provided for one fee. This is different from traditional management programs whereby advisory services are provided

for a fee, but transaction services are billed separately on a per-transaction basis. From a management perspective, there is no fundamental difference in the way we manage wrap-fee accounts versus traditional management accounts other than the way in which you pay for transaction services. Therefore, a wrap program will be cheaper for you compared to a traditional management account assessing a transaction charge if the management fee offered by your Investment Advisor Representative (IAR) is equal for both programs. It is a conflict if our IAR recommends a traditional management account assessing a transaction fee when a comparable wrap fee advisory program is available due to the conflicts discussed herein.

### Advisory Services

PFS provides its clients with investment management and/or consulting services in connection with programs we sponsor and developed, Summit Advisory Program, Summit-OP Advisory Program, and the Prospera Financial Planning Program, along with programs sponsored by Investnet Asset Management, Inc. (Investnet), SEI Asset Management (SEI), and Wells Fargo Advisors (Wells Fargo).

Investnet is an SEC Registered Investment Advisor providing integrated portfolio, practice management and reporting solutions to PFS and our investment advisor representatives.

SEI Asset Management is an RIA and third-party wrap fee managed program provider.

In November 2016, First Clearing, LLC merged and consolidated its operations into Wells Fargo Advisors, LLC. The resulting firm is now known as Wells Fargo Clearing Services, LLC (WFCS or FCC), Member SIPC, a registered broker-dealer and non-bank affiliate of Wells Fargo & Company. WFCS operates its brokerage and advisory business under the trade name "Wells Fargo Advisors". First Clearing is also a trade name used by WFCS when carrying customer accounts and acting as custodian for funds and securities deposited through introducing firms such as PFS or as a result of transactions it processes for customer accounts.

PFS generally requires using First Clearing as the qualified custodian and clearing broker-dealer for all client accounts established within the Summit Advisory Program. The custodians for the Summit-OP Advisory Program will vary depending on the assets managed and where those assets are kept. Recommending First Clearing is based on several factors more thoroughly discussed in the Brokerage Practices section of this Brochure.

First Clearing is the trade name used by Wells Fargo for clearing and custodial services and therefore the decision to use Wells Fargo sponsored programs is a main factor in also recommending First Clearing and vice-versa. Programs offered by us that are sponsored by Wells Fargo include:

- Private Investment Management ("PIM")
- Asset Advisor
- Private Adviser Network
- CustomChoice
- FundSource and Pathways.

While these Wells Fargo programs are described generally in our wrap brochure to this disclosure, these programs are sponsored, administered, controlled, and billed exclusively by Wells Fargo and its affiliates. PFS has described and represented these programs accurately and comprehensively to the best of its knowledge, but Wells Fargo's own disclosures will always be controlling and the definitive source for conflicts or features of these programs.

While you may be solicited to establish an account through any of the programs described in this document, not all programs offered are suitable for you. Therefore, your investment advisor representative must analyze your financial situation to recommend a program or service that is suitable for you. Further, if you have an account managed by us (i.e. the PFS investment advisor representative is responsible for selecting underlying portfolio holdings within client accounts) you will receive more personalized treatment than if your account is managed by selected third-party money managers (i.e. the selected money manager is responsible for selecting underlying portfolio holdings within client accounts).

### PFS Investment Advisor Representative Managed Programs Sponsored by PFS

Each program described in this section requires that we enter into an advisory agreement together for services to be provided. Either of us may end the agreement by providing notice to the other party. In the event you end our services (preferably in writing), we will terminate the agreement effective with your notification. We may end our services at any time by providing you with written notice. If services are ended within five (5) business days of executing the agreement, services will be ended without penalty. If services are ended after five (5) business days, your accounts, including qualified and/or ERISA accounts, are charged a termination fee to close the Account.

### SUMMIT ADVISORY PROGRAM

PFS sponsors the Summit program, which is a wrap-fee program and does not bill transaction costs separately from the overall management fee.

Through Summit, we provide investment supervisory and management services defined as providing continuous investment advice based on your individual needs. Services are provided on a discretionary (Advisor Directed) or non-discretionary (Client Directed) basis. Upon execution of a *Summit Advisory Agreement*, we will assist you in establishing an individual account (Account) with us (as the introducing broker-dealer) which is cleared through WFCS. All client accounts through the Summit program must be established through WFCS, which serves as the qualified custodian-broker-dealer.

Your investment advisor representative will recommend a model or construct a portfolio for you consisting of, but not necessarily limited to, equity investments, fixed income, no-load mutual funds and mutual funds traded at NAV.

In addition to the asset management fee, we offer our services on a performance-based fee arrangement to qualifying clients. Not all qualifying clients will be charged a performance-based fee as the determination to charge a performance-based fee will be made between the client and the investment advisor representative on a case-by-case basis. Our performance-based fee arrangement shall comply with Section 205-3 of the Investment Advisers Act of 1940. According to Section 205-3, you must meet the SEC's definition of "qualified clients" to enter into a performance-based compensation agreement with us. You must meet the following conditions to be considered a qualified client: have at least \$1,000,000 under management with us at the time you enter into an agreement with us; or provide documentation to us so that we shall reasonably believe you have either a net worth of \$2,000,000 or are a qualified purchaser under Section 2(a)(51)(A) of the Investment Company Act. Please refer to ITEM 6 of this Brochure for more information.

#### SUMMIT-OP ADVISORY PROGRAM

PFS sponsors the Summit-OP Advisory Program (Summit-OP), an investment advisory asset allocation program for assets held directly with outside custodians other than WFCS. Summit-OP is not a wrap-fee program because it charges transaction costs and the outside custodian may also charge sub-account, mortality and expense, and product rider fees as well. Only PFS investment advisor representatives serve as portfolio managers (excluding underlying sub-account managers or other product investment management services) in Summit-OP. Therefore, participants in Summit-OP must be advisory clients of PFS.

Through Summit-OP, we provide investment supervisory and management services defined as providing ongoing monitoring, investment advice, a fiduciary status, and an annual meeting based on your individual needs. Services are provided on a discretionary (Advisor Directed) or non-discretionary (Client Directed) basis. Upon execution of a *Summit-OP Advisory Agreement*, we will assist you in managing your individual account (Account) held away from our normal clearing platforms. The clearing firm or product sponsor serves as the qualified custodian for Accounts through Summit-OP.

Your investment advisor representative will construct a portfolio for you based on the investment choices available to the Account from the Custodian or plan provider. The available investments choices may be more limited than those provided to Accounts established through our other Custodians discussed in this Brochure. We may also recommend using Sub-Advisers to manage all or a portion of your assets. Any unaffiliated Sub-Advisers recommendation shall be made on a non-discretionary basis, shall be based on your needs and will only include Sub-Advisers registered or exempt from registration in your home state. You will enter into an agreement directly with the unaffiliated Sub-Adviser(s). A complete description of the third-party investment advisor's services, fee schedules and account minimums will be disclosed in the Sub-Adviser's Form ADV or similar Disclosure Brochure which will be provided to you at the time an agreement for services is executed and an account is established. Your investment advisor representative will be available to answer questions you may have regarding the portion of your account managed by the Sub-Adviser and will act as the communication conduit between you and the Sub-Adviser. Sub-Advisers may take discretionary authority to determine the securities purchased and sold for your account. Sub-Adviser(s) fee shall be calculated and collected separately from the Summit-OP program fees described below.

#### PROSPERA FINANCIAL PLANNING PROGRAM

Upon execution of a financial planning agreement, PFS investment advisor representatives provide investment advice through the PFS Financial Planning Program, which provides advice only with execution being a separate charge. Financial planning services may be provided in the form of written financial plans or in the form of financial planning consultations. Services may be provided on a one-time basis or on an on-going basis as you selected and memorialized in the agreement. Financial planning services generally cover one or more of the following six topics of concern: (1) financial situation, (2) income taxes, (3) insurance, (4) investments, (5) retirement planning, and (6) estate planning. To determine a suitable course of action, we perform a review of the variables that are presented. Such review may include, but would not necessarily be limited to, investment objectives, consideration of your overall financial condition, income and tax status, personal and business assets, risk profile, and other factors unique to your particular circumstances.

When we provide written financial planning services, we review your present financial situation and provide an analysis (usually in writing) and report of recommendations in accordance with your goals and objectives. This service may include an initial consultation and subsequent follow-up visits. If you are contracting for consultations only, you will not be provided with a written report or plan.

Unless engaged separately to do so, we will not be responsible for implementing the plan. You have the sole responsibility for determining whether or not to implement the recommendations made.

PFS Investment Advisor Representative Managed Programs Sponsored by Envestnet

ADVISOR AS PORTFOLIO MANAGER (APM) PROGRAM

Envestnet sponsors the Advisor as Portfolio Manager (APM) Program which allows your investment advisor representative to create, maintain and implement custom portfolio models regarding the assets in your account. Your investment advisor representative can create specific model positions and combine portfolio recommendations from a network of strategists and customize investment solutions. APM is a wrap-fee program, so it does not bill transaction costs separately from the overall management fee. Only investment advisor representatives of PFS serve as portfolio managers in APM. Therefore, participants in APM must be advisory clients of PFS.

Through APM, we provide investment supervisory and management services defined as providing continuous investment advice based on your individual needs. Services are provided on a discretionary (Advisor Directed) basis. Upon execution of a *Statement of Investment Selection/Portfolio Selection Terms and Conditions Agreement*, we will assist you in establishing an individual account (Account) with us (as the introducing broker-dealer) which is cleared through First Clearing.

Your investment advisor representative will construct a portfolio for you consisting of, but not necessarily limited to, equity investments, fixed income, no-load mutual funds, exchange traded funds and mutual funds traded at NAV. PFS will be responsible for managing all or a portion of your investable assets held in APM. Your Investment Advisor Representative will be responsible for investment decisions and when formulating investment recommendations, may consult with independent managers that serve in a sub-advisor capacity to provide investment recommendations and trade signals. When we hire a sub-advisor, we rely on the sub-advisor for all or some of the following: development of model portfolios, expertise in certain strategies or disciplines, specific recommendations of securities, and general investment advice. In some situations, a sub-advisor may be used on a limited basis and in other situations a sub-advisor may perform more substantial services as well as tailor its advice to the needs and circumstances of specific circumstances and objectives.

Investment advice and trade signals provided by sub-advisors are **not** made in consideration or knowledge of individual clients' specific needs. Therefore, you will not enter into an agreement directly with the sub-advisor and the sub-advisor will not be provided access to your account(s) or confidential information. PFS is responsible for applying sub-advisor recommendations to your account(s). To do so, we are given discretionary authority to implement securities transactions in your account(s). When we use a sub-advisor to help manage your accounts, the decision to make changes in client accounts will typically be based on the sub-advisor's advice. PFS and your investment advisor representative are then responsible for accepting or rejecting any advice and recommendations provided by a sub-advisor and to make corresponding changes in your account.

PFS Investment Advisor Representative Managed Programs Sponsored by Wells Fargo

PRIVATE INVESTMENT MANAGEMENT (PIM) AND ASSET ADVISOR PROGRAMS

PFS participates in the Private Investment Management (PIM) and Asset Advisor programs sponsored by Wells Fargo. PIM and Asset Advisor are wrap-fee programs, so they do not bill transaction costs separately from the overall management fee. Both programs allow the PFS investment advisor representative to provide on-going supervision and management services. PIM is an Advisor Directed program whereas Asset Advisor is a Client Directed program. All client accounts through the PIM and Asset Advisor programs must be established through First Clearing.

The description provided in this section regarding the Wells Fargo sponsored programs we manage is intended to provide you with a brief summary of each program. Wells Fargo will provide you with a full description and disclosure document at the time you establish an account through either the PIM or Asset Advisor programs. Please note that some restrictions Wells Fargo places on PIM accounts for its own clients are not necessarily applicable to PFS clients, such as the ability to include certain types of securities (such as low-priced stocks or concentrated positions) in the account.

PFS MODELS PROGRAM

PFS acts as the money manager for the PFS Models program sponsored by us. The PFS Models program relies on the investment advice and trade signals provided by sub-advisors. PFS implements trade orders, periodically updating and rebalancing the PFS Models program. Investment advisor representatives may select the PFS Models Program in the Summit Advisory Program and PIM program sponsored by Wells Fargo.

When we hire a sub-advisor, we rely on the sub-advisor for all or some of the following: development of model portfolios, expertise in certain strategies or disciplines, specific recommendations of securities, and general investment advice. In some situations, a sub-advisor may be used on a limited basis and in other situations a sub-advisor may perform more substantial services as well as tailor its advice to the needs and circumstances of specific circumstances and objectives. Sub-advisors may also be unpaid but receiving compensation due to recommending we purchase their proprietary or affiliated securities. This is a conflict for us to recommend these securities as clients may pay more than for similar securities, while we do not pay the sub-advisors for these recommendations.

Investment advice and trade signals provided by sub-advisors are **not** made in consideration or knowledge of individual clients' specific needs. Therefore, you will not enter into an agreement directly with the sub-advisor and the sub-advisor will not be provided access to your account(s) or confidential information. PFS is responsible for applying sub-advisor recommendations to your account(s). To do so, we are given discretionary authority to implement securities transactions in your account(s). When we use a sub-advisor to help manage your accounts, the decision to make changes in client accounts will typically be based on the sub-advisor's advice. PFS and your investment advisor representative are then responsible for accepting or rejecting any advice and recommendations provided by a sub-advisor and to make corresponding changes in your account. This Brochure acts as the disclosure document for the PFS Models program.

#### PFS MODELS THROUGH SPONSORED INVESTMENT MANAGEMENT PLATFORMS OR INVESTMENT WRAP PROGRAMS

Investors may also gain access to our PFS Models through programs or investment platforms sponsored by unaffiliated investment advisors and/or broker-dealers. These programs may be wrap-fee programs, lists of available investment managers, or general asset allocation programs. Through these programs or platforms, clients must establish an account directly with the program sponsor. PFS is then available to clients for selection as an independent signal provider. Many of the terms and conditions of these programs are determined by the program sponsor. Through these programs, PFS will be available to clients for selection as an independent signal provider.

Clients must establish an account directly with the program sponsor. All applicable contracts and account paperwork will be completed by the client with the assistance of the program sponsor representative. The program sponsor representative will obtain the necessary financial data from the client, assist the client in determining suitability, and help the client to set the appropriate investment objectives.

The program sponsor representative will meet periodically to review the client's financial situation, investment objectives, and current portfolios and then make any necessary changes to our investment signals. The program sponsor representative is responsible for approving and implementing all trades.

PFS is not responsible for executing transactions in the client's account. In these situations, we are simply a "signal provider". We are not granted trading authorization. Instead, we will provide all trade instructions to the sponsor of the program who will be responsible for executing our recommendations.

Conflicts arise in the allocation of investment opportunities among accounts that we manage or advise. We strive to allocate investment opportunities believed to be appropriate and equitable and consistent with the best interests of all clients involved. However, there can be no assurance that a particular investment opportunity that comes to our attention will be allocated in any particular manner.

Accounts established through a program sponsored by an unaffiliated investment advisor and/or broker-dealer will be held and cleared through a broker-dealer selected by the program sponsor, pursuant to a relationship between the sponsor and the clearing broker-dealer. The program sponsor reserves the right to designate alternative clearing and custody arrangements similar to those of its preferred clearing broker-dealer. Physical custody of funds and securities is maintained by the various clearing firms, not by PFS. Clients accessing PFS Models through a Platform have the ability to impose reasonable restrictions on their accounts within the procedures set forth by the Platform sponsor.

#### Third-Party Money Manager Programs – PortfolioStation Programs Sponsored by Envestnet and SEI

PFS participates in programs sponsored by Envestnet and SEI where PFS investment advisor representatives assist you in allocating your assets among one or more third-party money managers. Through the SMA and UMA programs, Envestnet may be provided discretionary authority to select and remove underlying third-party money managers. Under this type of arrangement, Envestnet and/or your PFS investment advisor representative do not have to receive your authorization to add or remove a money manager. When you do not grant discretionary authorization to select and remove third-party money managers, you must provide us and the custodian, i.e. First Clearing, with written instructions to add or change a money manager.

Envestnet retains Sub-Managers for portfolio management services through separate agreements entered into between Envestnet and the Sub-Manager on terms and conditions that Envestnet deems appropriate. For certain Sub-Managers, Envestnet entered into a licensing agreement with the Sub-Manager, where it would perform administrative and/or trade order implementation duties at the direction of the Sub-Manager. In such situations, the Sub-Manager is a Model Provider. Many of the asset managers available in the Envestnet sponsored programs are accessed through the use of investment models ("Third Party Models"), whereby the asset manager, acting as a "Model Provider," constructs an asset allocation and selects the underlying investments for each portfolio. Envestnet performs overlay management of the Third-Party Models by implementing trade orders, periodically updating and rebalancing each Third-Party Model pursuant to the direction of the Model Provider. Envestnet may, from time to time, replace existing Model Providers or hire others to create Third Party Models and cannot guarantee the continued availability of Third-Party Models created by particular Model Providers.

The description provided in this section regarding the Envestnet sponsored programs we manage is intended to provide you with a brief summary of each program. Envestnet will provide you with a full description and disclosure document at the time you establish an account through any of the programs. In addition, you will receive a disclosure document for all third-party money managers who manage your assets. Only third-party money managers that are registered as investment advisors or are exempt from investment advisor registration will be recommended.



The SEI Asset Management Program through Prospera offers clients a managed account using a series of model strategies (“Model Strategies”) provided to Prospera by SEI Investments Management Corporation (“SEI”), an SEC-registered investment adviser, whereby Prospera makes available model portfolios consisting of no-load and load-waived mutual funds advised by SEI or separate account program portfolios comprised of mutual funds, individual securities, cash, cash equivalents, and/or other investments managed by SEI or a separate portfolio manager. The adviser will assist the client in determining the appropriateness of the account and will help the client establish an asset allocation policy. SEI will determine the portfolio managers and investment allocation within each model portfolio. SEI Private Trust Company (“SPTC”) will invest the account according to the client’s chosen asset allocation policy and will rebalance or reallocate the investments within the account. Generally, rebalancing will occur on a monthly basis. SEI may change the relative allocation among the funds in the models, as well as the funds and portfolio managers included in the models. Such changes in the asset allocations of the model portfolios will generally be effected on a quarterly basis. Account assets are held in custody by SPTC. Clients will enter into a separate custodial agreement with SPTC to participate in the program and are subject to SPTC fees and charges for their services. Clients will receive from SPTC account statements no less frequently than quarterly detailing account activity and positions held in the account at period-end, as well as an annual tax reporting statement from SPTC. Clients may also receive quarterly performance updates showing the investment performance of the account.

#### SEPARATELY MANAGED ACCOUNT (SMA)

SMA is a discretionary wrap-fee program offering access to an actively managed investment portfolio chosen from a roster of independent asset managers (each a “Sub-Manager”) from a variety of disciplines for individually owned securities that can be tailored to fit your investing preferences. Your investment advisor representative, through Envestnet, will help you identify individual asset managers and investment vehicles that correspond to proposed asset classes and styles or to independently identify asset managers.

#### UNIFIED MANAGED ACCOUNT (UMA)

UMA is a discretionary wrap-fee program allowing for a single portfolio that accesses multiple asset managers and funds and represents various asset classes. Envestnet’s tools allow your investment advisor representative to customize your asset allocation models or select Envestnet’s proposed asset allocations for similar types of investors fitting your profile and investment goals. PFS and/or your investment advisor representative then further customize the portfolio by selecting the specific underlying investment strategies or Funds in the portfolio to meet your needs. Once the content of the portfolio is established, Envestnet provides overlay management services for UMA accounts and implements trade orders based on the directions of the investment strategies contained in the UMA portfolio.

#### Third-Party Money Manager Programs – Separate Account Manager Programs Sponsored by Wells Fargo

#### CUSTOMIZED PORTFOLIOS, AND PRIVATE ADVISOR NETWORK INVESTMENT CONSULTING SERVICE (NETWORK)

PFS participates in separate account manager programs sponsored by Wells Fargo. Through these programs, PFS investment advisor representatives assist you in allocating your assets among one or more third-party money managers.

Currently, we participate in the following Wells Fargo sponsored wrap-fee programs:

- Customized Portfolios and
- Private Advisor Network

PFS also participates in the Private Advisor Network Investment Consulting Service (Network) platform, a program sponsored by Wells Fargo. Under the Network programs, PFS investment advisor representatives assist you in determining and selecting third-party money managers who will be provided discretionary authority to select investment options to manage your assets

Under the Customized Portfolios Program, PFS investment advisor representatives will assist you in selecting from portfolios based on the investment strategies of our affiliate, Wells Fargo Investment Institute, who will be provided discretionary authority to handle the day-to-day investment management of your Account in accordance with your stated investment objectives. Investment strategies include Fixed Income Portfolios and Custom Option Overlay Portfolios. If you and your advisor select a Custom Option Overlay Portfolio, you are responsible for selecting and monitoring the non-options positions upon which an options overlay strategy will be implemented. These custom option overlay strategies seek to provide income alternatives and/or hedge downside risk on your selected securities.

The description provided in this section regarding the Wells Fargo sponsored programs we manage is intended to provide you with a brief summary of each program. Wells Fargo will provide you with a full description and disclosure document at the time you establish an account through any of the programs. In addition, you will receive a copy of all third-party money managers’ disclosure documents who manage your assets. Only third-party money managers that are registered as investment advisors or are exempt from investment advisor registration will be recommended.

Mutual Fund Wrap-Fee Programs Sponsored by Wells Fargo

CUSTOMCHOICE, FUNDSOURCE AND PATHWAYS PROGRAMS

PFS participates in two mutual fund wrap-fee programs sponsored and administered by Wells Fargo:

- CustomChoice
- FundSource and Pathways.

CustomChoice is a non-discretionary client directed mutual fund wrap program. You must execute the *CustomChoice Client Agreement* to participate in this program. Accounts through this program are managed by us on a non-discretionary basis. There are approximately 5,000 no-load, load waived, and institutional share class mutual funds from which to choose. You must approve all implementation decisions made through this program.

FundSource is a discretionary mutual fund wrap program based on Wells Fargo research-driven Optimal Blends or Customized Blends. You must execute the *FundSource Program Agreement* to participate in this program. All assets are managed by Wells Fargo who is given discretionary authority to implement changes within your account based on your individualized situation and based on information provided by you to our investment advisor representative. Portfolios are comprised of mutual funds selected by Wells Fargo.

Pathways is an asset allocation option within the FundSource Program that allows you to allocate assets among mutual fund portfolios (Pathways Funds) which are administered by Russell Investment Company (Russell). Russell will provide a selection of optimal blends of model investment portfolios or accept instructions from you with respect to a custom blend in various funds that are operated and administered by Russell, based on its evaluation of your financial goals, circumstances and risk tolerances. Russell is responsible for evaluating and retaining one or more investment management organizations to manage each Pathways Fund. The portfolios are designed for a specific investor. You must execute the *Pathways Program Agreement* to participate in this program.

We are not related to Russell, and Wells Fargo and Russell are not related entities. A portion of the fee charged for Pathways is paid to Russell for its investment advisory services.

We provide you with consulting services when selecting optimal blend mutual fund portfolios constructed by Wells Fargo for the FundSource program and by Russell for the Pathways program. You may also create your own customized mutual fund portfolio blend.

The description provided in this section regarding the Wells Fargo sponsored programs we manage is intended to provide you with a brief summary of each program. Wells Fargo will provide you with a full description and disclosure document at the time you establish an account through any of the programs. Pathway's clients will also receive all necessary disclosure documents relating to Russell.

Advisory Services to Retirement Plans and Plan Participants Contracted by Plan Sponsor

PFS offers various levels of advisory and consulting services to employee benefit plans and/or to the participants of such plans ("Participants"). The services are designed to assist plan sponsors ("Plan Sponsors") in meeting their management and fiduciary obligations to the Participants under the Employee Retirement Income Securities Act ("ERISA") and the Pension Protection Act of 2006 ("PPA"). Generally, investment advice provided to Plan Sponsors and Participants is regulated under ERISA and the PPA. We will provide a set of services to Plan Sponsors and their Participants which may include all or some of the offerings described below. Plan Sponsors must make the ultimate decision to retain us for pension consulting and other advisory services including services at the participant level. The Plan Sponsor is free to seek independent advice about the appropriateness of any recommended services for the plan. The following services are provided for general informational purposes. Not all clients contracting for retirement plan services will receive every level of service described below. The exact scope and types of services provided will be agreed upon with each client and listed in the client agreement.

The services provided to employee benefit plans ("the Plan") and their Plan Sponsors may include the following:

*Investment Policy Statement.* PFS may assist with the drafting and adoption of an Investment Policy Statement (IPS) for each Plan.

*Reasonableness Opinion.* PFS may provide a written opinion as to the appropriateness and reasonableness of including, or continuing to include, the shares of the employer's own stock as an investment option under the Plan, in respect of the IPS.

*Cash Flow Analysis.* PFS may assist the Plan's oversight committees with the review of the quarterly cash flow analysis as provided by the plan provider.

*Selection of Qualified Default Investment Alternative.* PFS may recommend to the client an investment fund product or model portfolio meeting the definition of a “Qualified Default Investment Alternative” (“QDIA”) in ERISA Regulation 2550.404c-5(e)(3). The QDIA shall be reflected in the IPS.

*Investment Performance Monitoring or Analysis.* PFS may assist the Plan’s oversight committees with the review of the quarterly investment performance of the Plan’s investment options. Under applicable circumstances, PFS will monitor the appropriateness and continued suitability of each of the investments with a view to complying with the “broad range” requirement under ERISA Section 404(c).

*Asset Allocation Analysis.* PFS may assist the Plan’s oversight committees with the review of the quarterly asset allocation analysis as provided by the Plan provider.

*Performance Reports.* PFS may prepare reports evaluating the performance of the Plan’s investment manager(s) or investments, as the case may be, as well as comparing the performance thereof to benchmarks set forth in the IPS. The information used to generate the reports will be derived from statements provided by the client.

*Education Services to Plan Committee.* PFS may provide training for the members of the Plan Committee with regard to their service on the committee, including guidance with respect to fiduciary duties.

*Participant Education Services.* PFS may conduct in-person, group sessions and provide printed educational materials (which may include posters, payroll stuffers, and emails) to Participants, providing information to them about the investment options under the Plan and providing information on how to complete plan enrollment paperwork. Services provided under an “Eligible Investment Advice Arrangement,” as defined under the PPA, shall be governed by a separate agreement.

*Expense Analysis.* PFS may assist the Plan’s oversight committees with the review of the investment expense characteristics for each of the investment options.

*Investment Structural Analysis.* PFS may assist the Plan’s oversight committees with the review of the Investment Structural Analysis for each of the investment options.

*Third Party Product or Service.* Advisory services provided to retirement plans may be solely provided by advisory representatives, or in combination with third parties and their retirement plan services. PFS may use the product or service offered by a third party in providing services to a client and the Plan.

*Plan Search Support.* PFS may manage the preparation, distribution, and evaluation of Request For Proposals, finalist interviews, and conversion support.

*Additional Services.* Services as agreed upon by PFS and client.

*Services for Plan Participants.* Plan Sponsors retain PFS and its advisory representatives to provide services to Participants pursuant to an “eligible investment advice arrangement,” as defined under the PPA. The scope of the services and fees are established and approved in advance by the Plan Sponsor and shall be clearly set forth in the executed agreement for services.

Advisory Representatives will meet with individual Participants to collect pertinent information regarding their financial circumstances and investment objectives. Advisory Representatives will then deliver advice either by:

- providing direct investment advisory services to the Participant (in which case the PFS fee will not vary based on the advice given to the Participant)
- generating portfolio recommendations for a Participant based on an unbiased computer model that has been certified and audited by an independent third party.

#### Advisory Services to Retirement Plan Participants Not Contracted by Plan Sponsor

Participants also directly retain PFS and its advisory representatives to provide direct advisory services by executing a *Summit-OP Advisory* or *Prospera ERISA Services Agreement*. The services and fees are set forth in the executed agreement and approved by participant in lieu of the plan sponsor. Participants may elect to roll-over retirement plan assets to an individual account at PFS under the same investment advisor representative who provided advisory services while those assets were maintained within the original qualified plan.

#### Advisory Services to Individual Retirement Plans

PFS provides services to individual retirement plans, and in doing so we charge reasonable compensation. PFS has identified and determined that

our material conflicts of interest are fair and reasonable and have adopted measures reasonably designed to avoid such conflicts. More information on these mitigation measures can be found in Item 12 of this disclosure document.

### Management of Client Assets

PFS manages assets on a discretionary and non-discretionary basis. As of June 30, 2024, PFS managed \$9,811,417,970 in client assets of which \$6,203,689,579 was managed on a discretionary basis and \$3,607,728,391 was managed on a non-discretionary basis.

## ITEM 5 – FEES AND COMPENSATION

Although PFS does not generally waive from these fee schedules, we reserve the right to charge you a higher or lower fee or one different from the guidelines set forth in these fee schedules and one lower or higher than fees charged to another client with a similar account.

For newly established Summit advisory accounts where assets transfer in from other broker-dealers or outside accounts, the fee for the first month will be billed in arrears based on the market value of your account assets at the end of the month in which your account was first funded and pro-rated for the number of days applicable. For PFS brokerage accounts converted to advisory accounts, the first month's fee may be billed in arrears and based on the market value of the former brokerage account's assets at the end of the previous month and pro-rated for the number of days applicable. Thereafter and depending on the program selected, the Fee will be either (a) calculated and collected for the current month based on the value of Program assets as of the last business day of the prior month, net of any excluded assets, or (b) paid at the beginning of each month based upon the average daily balance of the assets in the Account as of the previous month. Fees are not pro-rated or refunded for any partial month when the advisory relationship is terminated. Therefore, you may be assessed a fee for the entire last month if you terminate the advisory services at any time before the final day of that same month. The fee is considered earned when paid.

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. The interest charges, combined with Fee, may exceed the income generated by the assets in your Account and, as a result, the value of your Account may decrease. In determining the Account Value, we will use the closing prices or, if not available, bid prices of the last recorded transactions for listed securities, options and over-the-counter securities. For mutual funds, we will use the fund's most current net asset value, as computed by the fund company. We will use information provided by quotation services believed to be reliable in determining the Account Value. If any such prices are unavailable or believed to be unreliable, we will determine prices in good faith so as to reflect our understanding of fair market value. The Fee will be applied to cash alternatives (i.e., money market funds) held inside the Account. Clients will, in most instances, pay more in fees with respect to sweep vehicle holdings, than the interest earnings that may be generated by these sweep vehicle holdings. Due to trade date or settlement date accounting, the treatment of accrued income, short positions and other factors, the Account Value used in the calculation of fees could differ from that shown on your monthly account statement and/or performance report.

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

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

### **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 rate and share in the interest charged for these programs, which is a conflict for us 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 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, 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 their clients' Wells Fargo securities-based Priority Credit Lines "PCL" and Securities-Based Loan Programs, which is a conflict to recommend their use. PCL loans are not the cheapest options for securities-based lending.

- 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. We address these conflicts by disclosing them to you.
- Securities-Based Loan Programs May Not Be Suitable for You. There are other lending products that may be suitable for you and for which we and your Financial Advisor would receive different or no compensation. You are responsible for independently evaluating if a Securities-Based Loan is appropriate for your needs, if the lending terms are acceptable, and whether the Securities-Based Loan will have potential adverse tax or other consequences for you.
- There Are Limitations on the Use of Securities-Based Loan Proceeds. Except for margin accounts, where the loan proceeds can be used to purchase, carry, or trade securities, the proceeds of PCL may not be used to (a) purchase, carry, or trade securities or (b) reduce or retire any indebtedness incurred to purchase, carry, or trade securities. If your Account is used as collateral for a Securities-Based Loan, the Account is pledged to support the Securities-Based Loan and you are not permitted to withdraw funds or other assets from your Account unless sufficient amounts of collateral remain to continue supporting the Securities-Based Loan (as determined under the applicable Securities-Based Loan Program). Although you are required to satisfy such collateral requirements, you can terminate your advisory relationship with PFS, at which time the funds and assets in your account will be treated as a brokerage account and the collateral requirements for the Securities-Based Loan will continue to apply.

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

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

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

not get to choose the assets that are liquidated. We or a third-party Manager will seek to manage your Account as agreed under your advisory Client Agreement and applicable Program Features and Fee Schedule, provided that, if a maintenance call takes place, you should expect that we or your Manager will not be able to manage your Account consistent with our or the Manager's overall strategy. In addition, in order to preserve sufficient collateral value to support the loan and avoid a maintenance call, depending on your leverage, a Financial Advisor may be inclined to invest your Account in more conservative investments, which may result in lower investment performance than more aggressive investments (depending on market conditions). We mitigate this risk by requiring and monitoring to ensure that your Account is managed consistent with your respective investment strategies.

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

Either of us may end the agreement by providing notice to the other party. In the event you end our services (preferably in writing), we will terminate the agreement effective upon delivery of your notification. We may end our services at any time by providing you written notice. If services are ended within five (5) business days of executing the agreement, services will be ended without penalty. Your qualified and/or ERISA accounts may be charged a termination fee to close the Account depending on the custodian.

Fees are typically deducted directly from your Account. You must provide written authorization to have us deduct fees from the Account or any other account you select. The qualified custodian will send your client statements, at least quarterly, showing all disbursements for the Account including the amount of the advisory fee deducted. You may direct us to pay the fee from a different account. If approved by us, you may pay advisory fees upon receipt of a billing invoice from us in lieu of having fees debited directly from the Account.

You may also incur certain charges imposed by other third parties for investments made through the Account, including but not limited to, mutual fund sales loads, surrender charges, IRA and qualified retirement plan fees, clearing costs, and fees required for the opening, closing or servicing of the account, including but not limited to applicable maintenance fees, exchange fees or other charges required by law. The management fees we charge are separate and distinct from the fees and expenses charged by investment company securities recommended to you. A description of these fees and expenses are available in each investment company security's prospectus. Management fees are also separate and distinct from the fees and expenses charged by the qualified custodian serving as the clearing broker-dealer (e.g. First Clearing). We will retain or share a portion of any fees charged by a third-party if any portion of those fees is shared with us by the third-party as described further herein.

#### Summit Advisory Program Fees

Summit clients pay PFS a fixed fee or annualized wrap advisory fee based upon a percentage of the market value of Account assets for services provided by us. Fees charged on all assets are negotiable and the maximum annual fee charged for program accounts shall not exceed 2.15% of assets under management.

For newly established advisory accounts where assets transfer in from other broker-dealers or outside accounts, the fee for the first month will be billed in arrears based on the market value of your account assets at the end of the month in which your account was first funded and pro-rated for the number of days applicable. For PFS brokerage accounts converted to advisory accounts, the first month's fee may be billed in arrears and based on the market value of the former brokerage account's assets at the end of the previous month and pro-rated for the number of days applicable. Thereafter, the Program fee is calculated and collected for the current month based on the value of Program assets as of the last business day of the prior month, net of any excluded assets. Off-platform assets linked to and shown on the statement are usually considered excluded assets in the fee calculation unless you agree (either on the Program advisory agreement or through a separate advisory agreement) that they are included in the calculation. Fees are not pro-rated or refunded for any partial month when the advisory relationship is terminated. Therefore, you may be assessed a fee for the entire last month if you terminate the advisory services at any time before the final day of that same month. The fee is considered earned when paid. The actual fee charged is based on factors such as, but not necessarily limited to, the amount of assets under management, totality of services provided to you and your overall financial complexity. The specific services to be provided and fee charged will be mutually agreed upon and described in the *Summit Advisory Agreement* before commencing services.

Summit does not have a minimum account size. However, your Financial Advisor will be charged a fee if your advisory account value drops below the stated minimum account sizes for our offered advisory programs or \$10,000 in Summit accounts. Therefore, it is a conflict for your Financial Advisor to recommend you increase your account size if it falls below the minimum stated program limits for our offered advisory programs or falls below \$10,000 in Summit accounts.

### Summit-OP Program Fees

Summit-OP clients pay an annualized fee for services provided by us, based upon a percentage of the market value of Account assets. Fees charged on all assets are negotiable and the maximum annual fee charged for program accounts shall not exceed 2.15% annually.

Fees may be collected monthly or quarterly depending on the frequency with which the off-platform Custodian provides valuations for the Account. The fee for the first period will be billed in arrears based on the market value of the off-platform assets at the end of the period in which you enter into the Summit-OP agreement and pro-rated for the number of days applicable. Thereafter, the Program fee is calculated and collected for the current period based on the value of Program assets as of the last business day of the prior period, net of any excluded assets. Fees are not pro-rated or refunded for any partial month when the advisory relationship is terminated. Therefore, you may be assessed a fee for the entire last month if you terminate the advisory services at any time before the final day of that same month. The fee is considered earned when paid. The actual fee charged is based on factors such as, but not necessarily limited to, the amount of assets under management, totality of services provided to you and your overall financial complexity. The specific services to be provided and fee charged will be mutually agreed upon and described in the *Summit-OP Advisory Agreement* before commencing services.

### Prospera Financial Planning Program Fees

Fees for financial planning services may be based on a fixed or hourly fee and the actual amount charged to you will be affected by factors such as the complexity of the services provided and the PFS investment advisor representative providing services. While fees charged will vary from client to client, the maximum hourly fee a PFS investment advisor representative may charge is \$750. Actual fees charged are negotiated between you and the PFS investment advisor representative and will be as stated on the agreement.

In providing services, the PFS investment advisor representative will provide you with an estimate of the number of hours needed to complete services or an estimated fixed fee. All fees are negotiable and are agreed upon when entering into a contract. In the event the PFS investment advisor representative requires additional time to complete services, we will obtain your approval before commencing additional services. All fees are due upon completion of financial planning services in accordance with the parameters set forth in the written financial planning agreement. We may waive the agreed upon fee if you purchase products or enter into agreements for other services with us.

You are under no obligation to act on the financial planning recommendations of PFS investment advisor representatives. If PFS investment advisor representatives assist you in implementing any financial planning recommendations or if you elect to open an advisory account with us, we are responsible for ensuring that you receive the best execution possible.

### PFS Models Program Fee

Annual fees for accounts maintained with PFS charged under these programs are charged to the PFS investment advisor representative and collected as part of the overall fee charged in the Program selected.

### PFS Models Through Sponsored Investment Management Platforms Or Investment Wrap Programs Program Fees

When serving as a third-party money manager or sub-advisor to clients of unaffiliated investment adviser firms, our fees will generally not exceed 0.35% of the assets allocated to PFS Models. A portion of this fee will be paid to sub-advisors we utilize to help for the development of model portfolios, expertise in certain strategies or disciplines, specific recommendations of securities, and general investment advice.

Depending on the program, the PFS fee will either be charged in addition to the overall program fee charged to a client or included in the program fee charged to the client. Our investment management fees are non-negotiable with clients.

In accordance with the program sponsor's billing arrangements, we may provide the program sponsor, broker-dealer, or account custodian a quarterly invoice. Our fees are then billed and collected by the program sponsor, broker-dealer, or account custodian and remitted directly to PFS. Clients should refer to the program sponsor's disclosure brochure and contract for a full description of all fees and billing arrangements related to the program.

Fees for accounts managed by PFS on a broker-dealer or custodian platform will be calculated and collected by the platform sponsor and remitted to PFS. In those cases, any other fees or costs, such as trading costs, are deducted and retained by the sponsor. PFS is not a party to, and does not participate in, such fees.

The process for removing PFS as a sub-advisor or money manager on a Platform must comply with the procedures established by the Platform sponsor and the termination provisions outlined in the client agreement.



#### Advisor as Portfolio Manager (APM) Program Fees

Annual fees charged under the APM program are billed monthly in advance and usually deducted directly from your Account. This program is not sponsored by PFS. When fees are negotiable, the negotiating factors include the complexity of your financial situation, securities positions held in the account, and the amount of assets under management. The maximum annual fee charged for APM program accounts shall not exceed 2.15% annually.

The initial fee for the first month (or part thereof) in which you participate in the APM Program shall be calculated on the day after your initial assets are placed into the Program and then debited the first day of the new month afterward. The initial fee for any partial month is pro-rated based on the number of calendar days in the partial month. Thereafter, the Program fee is calculated and collected for the current month based on the value of Program assets as of the last business day of the prior month, net of any excluded assets. The fee for each month will equal (on an annualized basis) the percentage set forth in the Fee Schedule. If you terminate your participation in and/or withdraw all assets from the Program prior to the end of a month, the pro-rata portion of the Program Fee will be reimbursed to you.

#### Separately Managed Account (SMA) Program Fees

Annual fees charged under the SMA program are billed monthly in advance and usually deducted directly from your Account. When fees are negotiable, the negotiating factors include the complexity of your financial situation, securities positions held in the account, and the amount of assets under management. The maximum annual fee charged for SMA program accounts shall not exceed 2.15% annually.

The initial fee for the first month (or part thereof) in which you participate in the SMA Program shall be calculated on the day after your initial assets are placed into the Program and then debited the first day of the new month afterward. The initial fee for any partial month is pro-rated based on the number of calendar days in the partial month. Thereafter, the Program fee is calculated and collected for the current month based on the value of Program assets as of the last business day of the prior month, net of any excluded assets. The fee for each month will equal (on an annualized basis) the percentage set forth in the Fee Schedule. If you terminate your participation in and/or withdraw all assets from the Program prior to the end of a month, the pro-rata portion of the Program fee will be reimbursed to you.

#### Unified Managed Account (UMA) Program Fees

Annual fees charged under the UMA program are billed monthly in advance and usually deducted directly from your Account. When fees are negotiable, the negotiating factors include the complexity of your financial situation, securities positions held in the account, and the amount of assets under management. The maximum annual fee charged for UMA program accounts shall not exceed 2.15% annually.

The initial fee for the first month (or part thereof) in which you participate in the UMA Program shall be calculated on the day after your initial assets are placed into the Program and then debited the first day of the new month afterward. The initial fee for any partial month is pro-rated based on the number of calendar days in the partial month. Thereafter, the Program fee is calculated and collected for the current month based on the value of Program assets as of the last business day of the prior month, net of any excluded assets. The fee for each month will equal (on an annualized basis) the percentage set forth in the Fee Schedule. If you terminate your participation in and/or withdraw all assets from the Program prior to the end of a month, the pro-rata portion of the Program fee will be reimbursed to you.

#### Private Investment Management (PIM) Program Fees

Annual fees charged under these programs are billed quarterly in advance and are deducted directly from your accounts pursuant to the PIM ADV. When fees are negotiable, the negotiating factors include the complexity of your financial situation, securities positions held in the account, and the amount of assets under management. The maximum annual fee charged in PIM equity and fixed income accounts shall not exceed 2.15% annually. Fees charged on accounts are negotiable.

#### Asset Advisor Program Fees

The maximum annual fee charged in Asset Advisor accounts shall not exceed 2.15% annually. Fees charged on accounts are negotiable, and this program is not sponsored by PFS.

#### Customized Portfolios Program Fees

The annualized fee charged under the Customized Portfolios Program includes execution and consulting, and a portion of the fee is retained by Wells Fargo for such services, some of which is directed to Wells Fargo Investment Institute.

#### Private Advisor Network (Network) Fees

Wells Fargo offers a choice of two options to compensate for Private Advisor Network services. This program is not sponsored by PFS. The two options are (1) payment of a fee for Private Advisor Network services and execution charges or (2) an execution schedule for services and execution charges. The annualized fee charged under the Private Advisor Network can be up to 2.15% annually. Fees charged by money managers selected under the Network program are billed and collected separately from the annual fee retained by us. Under the Execution Schedule, you pay for Private Advisor Network services by paying commissions for each transaction in the account at the normal commission rate for such agency transactions and at the normal markup or markdown imposed on your accounts for principal transactions.

CustomChoice, FundSource and Pathways Program Fees

Fees charged under these three programs are billed quarterly in advance and are deducted directly from your account. These programs are not sponsored by PFS. When fees are negotiable, the main factor is the amount of assets under management, but other factors include your level of service in other PFS programs and the complexity of your overall situation. There is no minimum quarterly fee charged under the FundSource, CustomChoice and Pathways Programs.

The maximum fee for all these programs is 2.15% annually.

Retirement Plans and Plan Participants Advisory Service Fees

Fees for Advisory Services to Retirement Plans and Plan Participants are charged on either a 1) flat fee basis, 2) percentage of a plan's assets, or 3) on a combination of these methods, as agreed to between PFS and the Plan Sponsor. The exact fee charged will depend on the variables, such as the number of participants, the amount of assets in the Plan, the complexity of the situation, the location of the client, and the advisory representative providing services. In the event fees are charged based on the percentage of the Plan assets, the maximum fee charged will not exceed 2.00% annually. The fee charged for reviewing individual Participant accounts is contingent upon the amount of assets held within the accounts being reviewed and the number of accounts being reviewed. In the event fees are charged based on the percentage of the Participant's Plan assets, the maximum fee charged will not exceed 2.00% annually. Participant fees may be paid by the Participant or the Plan Sponsor depending on the agreement between the Plan Sponsor and PFS. Services may be provided on a one-time or on-going basis. Upon execution of a client agreement, the client will have five (5) business days to end services with no penalty (i.e. no fees due or refund of any fees paid in advance). The annual fee may be divided and collected monthly, quarterly, or semi-annually depending on the agreement. In the event the entire annual fee is collected in advance, the fee will be considered earned when paid. In these cases, PFS does not provide a refund if the service is ended after the initial five (5) day period.

The exact fee charged and the billing arrangements will be agreed upon before commencing services. The fee and fee arrangements will be detailed in the client agreement.

Clients shall also incur certain charges imposed by third parties other than us in connection with investments made through a Plan, which are not included in the fee paid to PFS.

Performance-Based Fees

The following performance-based fee schedule should be used as a guideline only. All fees are subject to negotiation at the sole discretion of PFS. PFS may charge a lesser or no management fee based upon criteria such as existing financial planning client relationship, anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition or negotiations with the client.

<u>Quarterly Percentage Change in Net Equity</u>	<u>Quarterly Performance Percentage Assessment</u>
0.00% or less	0.00%
Greater than 0.00%	20.00%

The quarterly performance fee shall be based on the net equity increase in market value of your total assets under management with us. The quarterly net equity increase shall be understood to be the percentage difference between the net equity market value of your total assets (plus/minus additions or withdrawals) under our management on the last business day of a calendar quarter compared to the net equity market value of your total assets under our management on the first business day of that same calendar quarter. We shall not collect a quarterly performance-based fee from you until any previous losses in your accounts have been recovered. Annual management fees shall continue to be assessed regardless of quarterly performance. No increase in our fees shall be effective without prior written notification to you.

Commissions

PFS and its investment advisor representatives licensed as securities agents do receive commissions from the execution of securities transactions, including assets excluded from Advisory Fee billing. In addition, they receive 12b-1 fees from certain investments as outlined in the investments'

prospectuses on positions excluded from Advisory Fee billing or subject to non-wrap advisory services. 12b-1 fees and trails come from investment assets, therefore, indirectly from client assets. Receiving such fees creates an incentive and conflict for investment advisor representatives to recommend investments with 12b-1 fees and trails over investments that have no fees or lower fees or positions subject to an advisory fee. Furthermore, PFS and its investment advisor representatives licensed as securities agents receive mutual fund sales loads, 12b-1 distribution fees, fixed income security commissions or mark-ups/mark-downs, commissions on managed futures, variable annuity and variable life sales commissions and trail commissions from investments excluded from Advisory Fee billing but placed in a PFS advisory account. These 12b-1 fees are rebated to advisory client accounts if the positions are not excluded from advisory billing.

#### Off-Platform Investments

Clients have the option to purchase investment products we recommend through other brokers or agents not affiliated with PFS.

#### Other Fees and/or Costs

PFS adds a markup to the fees noted below assessed by its clearing firm and paid by clients or clients' advisors to compensate PFS for the cost of its resources utilized in processing the transaction(s) and to generate additional revenue for PFS. In addition to the annual management fee, PFS clients will pay transaction charges as set forth below and as may be modified from time to time by PFS or the applicable custodian.

<b>Transaction Charges – Charged Directly to the Client – First Clearing</b>	
<b>Retirement Account Fees</b>	
IRA Termination Fee	\$125.00 per account
<b>Non-Retirement Account Fees</b>	
Full Account Transfer Fee - ACATs	\$125.00 per account
<b>Alternative Investment Fees</b>	
Outside Assets in IRA Accounts	\$100.00 per position per year, up to \$600.00 maximum
<b>Physical Certificates</b>	
Standard Delivery	\$500.00 plus pass through DTC charges
Rush Delivery	\$500.00 plus pass through DTC charges
Re-registration of physical certificates	\$125.00 per item
GNMA Certificate Transfer / Issuance	\$35.00 per item
Foreign Physical Securities Transfer / Issuance	\$500.00 per item plus pass through agent fees
Annual Safekeeping Fee	\$500.00 per item (onetime fee) + \$150 annually per item
Rejection of Direct Registration Certificates	\$75.00 per item
Rejection of Ineligible Physical Certificates	\$50.00 per item plus DTC charges
Replacement of Securities Lost by Customer	\$100.00 + transfer fees per position
<b>Cash Management Service Fees</b>	
Advantage Basic Account	\$0.00 annual fee
Advantage Standard Account	\$125.00 annual fee
Debit Card	Included in Standard Account per order
Additional Debit Card	\$15.00 per additional card
Returned Check Fee	\$10.00 per check
Check Copies	3 Free per month - \$15.00 for each additional copy
Stop Payment	\$25.00 per item
NSF Fee	\$20.00 per item
Initial Order – Checks	\$0.00 - \$20.00 per order

Reorder Checks	\$9.00 - \$25.00 per order
Corporate Checks	Varies – Call for pricing
Check Overnight Fee	\$15.00 per transaction
Wire Fee – Domestic	\$15.00 per transaction
Wire Fee - International	\$15.00 per transaction
<b>Transaction / Trade Fees</b>	
Reorganization Fee – instructions received after expiration	\$100.00 per item
Option Regulatory Exchange Fee – Assessed by PFS	\$.02685 per contract
SEC Regulatory Fee – equity orders (sell side only)	\$.0000278 x principal of the trade
<b>Miscellaneous</b>	
Prepay on Trade	\$15.00 OR Margin Rate per transaction, whichever is higher*
Foreign Securities	Charged at cost per security

\* Fees subject to a markup by PFS as described above.

\*\* You will pay an Options Regulatory Fee (ORF) per options contract transacted, which is \$0.02685 as of January 3, 2024. This fee varies by options exchange, where an options trade executes, and whether the broker responsible for the trade is a member of a particular exchange. As a result, First Clearing calculates a blended rate that equals or slightly exceeds the amount it is required to remit to the options exchange. This fee is subject to change.

*The listed fees do not include other transaction-related fees (if applicable) or advisory fees. Fees may not apply to all account types. Some of these fees may be waived under certain conditions.*

Use of Black Diamond account services is subject to a separate fee, which is subject to a markup by PFS and therefore a conflict for us to recommend.

## ITEM 6 – PERFORMANCE BASED FEES AND COMMISSIONS

As described above in Item 5 – Fees and Compensation, through the Summit Advisory Program we provide services and are compensated in a way in which we accept performance fees, that is, fees based on a share of capital gains or capital appreciation of your assets. We also provide services and are compensated in a way in which we accept asset-based fees or fees based on the total amount of assets you own.

PFS faces conflicts of interest in managing these accounts at the same time. For example, the nature of a performance fee poses an opportunity for us to earn more compensation than under a stand-alone asset-based fee. Thus, we will be conflicted to favor performance fee accounts over those accounts where we receive only an asset-based fee. One way we may favor performance fee accounts is that we may devote more time and attention to performance fee accounts than to accounts under an asset-based arrangement.

There are other conflicts associated with performance fees that are not as common under an asset-based fee arrangement. Performance fees can encourage unnecessary speculation with your assets to earn or increase the amount of the fee. The result of riskier investments can have a positive effect in that results could equal higher returns when compared to an asset-based account. On the other hand, riskier investments historically have a higher chance of losing value. Also, since in a performance fee arrangement an advisor is compensated based on capital gains or capital appreciation, these arrangements could give an investment advisor an incentive to time transactions in a client's account on the basis of fee considerations rather than on what is necessarily in your best interests.

Performance fees can potentially cause us to engage in transactions or strategies which will increase the amount of the performance fees, but which may not increase the overall performance of your account. For example, an account may lose value during a year and no performance fee will be earned. In the following year, we may receive a performance fee for simply recouping losses from the previous year. We control this conflict of interest by using a benchmark (also known as a high-water mark) as detailed in Item 5 of this Brochure. A performance fee may also encourage us to make riskier and more speculative investments. We do not represent that the amount of the performance fees or the manner of calculating the performance fees is consistent with other performance-related fees charged by other investment advisers under the same or similar circumstances. The performance fees we charge may be higher than the performance fees charged by other investment advisers for the same or similar services.

We have established policies and procedures to address the various conflicts of interest associated with charging a performance fee:

- PFS investment advisor representatives must devote equal time to the management of performance fee accounts and asset-based accounts.
- Only clients that are able to assume additional risk are solicited to engage in a performance fee arrangement.
- PFS provides such clients full disclosure of the additional risks associated with a performance fee arrangement.
- Performance of client accounts must reach a pre-determined and agreed upon benchmark (or high-water mark).

## ITEM 7 – TYPES OF CLIENTS

We provide the advisory services described in this Brochure to individuals, pension, retirement, and profit-sharing plans, trusts, estates or charitable organizations, and corporations or other business entities.

## ITEM 8 – METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

Investing in securities involves risk of loss that investors should be sure they understand and should be prepared to bear.

PFS primarily serves retail investors. Each advisor associated with PFS has the independence to take the approach he or she believes is most appropriate when analyzing investment products and strategies for clients. There are several sources of information that PFS and the advisor may use as part of the investment analysis process. These sources include, but are not limited to:

- Prospectuses and offering materials
- Product and sponsor sales materials
- Sponsor due diligence meetings and product presentations
- Financial publications
- Research materials prepared by others
- Corporate rating services
- SEC filings (annual reports, prospectus, 10-K, etc.)
- Company press releases

As a firm, PFS does not favor any specific method of analysis over another and, therefore, would not be considered to have one approach deemed to be a “significant strategy.” There are, however, a few common approaches that may be used by PFS or your advisor, individually or collectively, in the course of providing advice to clients. **It is important to note that there is no investment strategy that will guarantee a profit or prevent loss.**

Following are some common strategies employed by PFS and its advisors in the management of client accounts:

- **Dollar Cost Averaging (“DCA”):** The technique of buying a fixed dollar amount of a particular investment on a regular schedule, regardless of the share price. More shares are purchased when prices are low, and fewer shares are bought when prices are high. DCA is believed to lessen the risk of investing a large amount in a single investment at a higher price. DCA strategies are not effective and do not prevent against loss in declining markets.
- **Asset Allocation:** An investment strategy that aims to balance risk and reward by allocating assets among a variety of asset classes. At a high level, there are three main asset classes—equities (stocks), fixed income (bonds), and cash/cash equivalents—each of which has different risk and reward profiles/behaviors. Asset classes are often further divided into domestic and foreign investments, and equities are often divided into small, intermediate, and large capitalization. The general theory behind asset allocation is that each asset class will perform differently from the others in different market conditions. By diversifying a portfolio of investments among a wide range of asset classes, advisors seek to reduce the overall volatility and risk of a portfolio through avoiding overexposure to any one asset class during various market cycles. Asset allocation does not guarantee a profit or protect against loss.
- **Technical Analysis (aka “Charting”):** A method of evaluating securities by analyzing statistics generated by market activity, such as past prices and volume. Technical analysts do not attempt to measure a security’s intrinsic value. Instead, they use charts and other tools to identify patterns that can suggest future activity. When looking at individual equities, a person using technical analysis generally believes that performance of the stock, rather than performance of the company itself, has more to do with the company’s future stock price. It is important to understand that past performance does not guarantee future results.
- **Fundamental Analysis:** A method of evaluating a security that entails attempting to measure its intrinsic value by examining related economic, financial, and other qualitative and quantitative factors. Fundamental analysts attempt to study everything that can affect the security’s value, including macroeconomic factors (e.g., the overall economy and industry conditions) and company-specific factors (e.g., financial condition and management). The end goal of performing fundamental analysis is to produce a value that an investor can compare

with the security's current price, with the aim of figuring out what sort of position to take with that security (underpriced = buy, overpriced = sell or short). This method of security analysis is considered the opposite of technical analysis.

- **Quantitative Analysis:** An analysis technique that seeks to understand behavior by using complex mathematical and statistical modeling, measurement, and research. By assigning a numerical value to variables, quantitative analysts try to replicate reality mathematically. Some believe that it can also be used to predict real-world events, such as changes in a share price.
- **Qualitative Analysis:** Securities analysis that uses subjective judgment based on nonquantifiable information, such as management expertise, industry cycles, strength of research and development, and labor relations. This type of analysis technique is different from quantitative analysis, which focuses on numbers. The two techniques, however, are often used together.

PFS's investment philosophy process has five steps: (1) screening, (2) evaluation, (3) analysis, (4) portfolio construction, and (5) ongoing monitoring.

### Risks of Loss

Regardless of what investment strategy or analysis is undertaken, investing in securities involves risk of loss that clients must be prepared to bear; in fact, some investment strategies could result in total loss of your investment. Some risks may be avoided or mitigated, while others are completely unavoidable. Some of the common risks you should consider prior to investing include, but are not limited to:

- **Market risks:** The prices of, and the income generated by, the common stocks, bonds, and other securities you own may decline in response to certain events taking place around the world, including those directly involving the issuers; conditions affecting the general economy; overall market changes; local, regional, or global political, social, or economic instability; governmental or governmental agency responses to economic conditions; and currency, interest rate, and commodity price fluctuations.
- **Interest rate risks:** The prices of, and the income generated by, most debt and equity securities may be affected by changing interest rates and by changes in the effective maturities and credit ratings of these securities. For example, the prices of debt securities generally will decline when interest rates rise and will increase when interest rates fall. In addition, falling interest rates may cause an issuer to redeem, "call," or refinance a security before its stated maturity date, which may result in having to reinvest the proceeds in lower-yielding securities.
- **Credit risks:** Debt securities are also subject to credit risk, which is the possibility that the credit strength of an issuer will weaken and/or an issuer of a debt security will fail to make timely payments of principal or interest and the security will go into default.
- **Risks of investing outside the U.S.:** Investments in securities issued by entities based outside the United States may be subject to the risks described above to a greater extent.

Investments may also be affected by currency controls; different accounting, auditing, financial reporting, disclosure, and regulatory and legal standards and practices; expropriation (occurs when governments take away a private business from its owners); changes in tax policy; greater market volatility; different securities market structures; higher transaction costs; and various administrative difficulties, such as delays in clearing and settling portfolio transactions or in receiving payment of dividends. These risks may be heightened in connection with investments in developing countries. Investments in securities issued by entities domiciled in the United States may also be subject to many of these risks.

Your investments are not bank deposits and are not insured or guaranteed by the FDIC or any other governmental agency, entity, or person, unless otherwise noted and explicitly disclosed as such, and as such may lose value.

### ITEM 9 – DISCIPLINARY INFORMATION

On June 3, 2015, without admitting or denying the findings, the Firm consented to the sanctions and to the entry of findings (Case number 2014040008801) by FINRA that it failed to transmit 32,636 reportable order entry events (ROES) to the order audit trail system (OATS) on 140 business days. The findings stated that the firm's supervisory system did not provide for supervision reasonably designed to achieve compliance with respect to the applicable securities laws and regulations, and the rules of FINRA. The firm's written supervisory procedures (WSPs) failed to provide the minimum requirements for adequate WSPs for OATS. The firm was censured and fined \$12,500.00.

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).

All legal and disciplinary events for PFS and its supervised persons 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).

## ITEM 10 – OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

PFS is not and does not have a related company that is a (1) investment company or other pooled investment vehicle (including a mutual fund, closed-end investment company, unit investment trust, private investment company or “hedge fund,” and offshore fund), (2) futures commission merchant, commodity pool operator, or commodity trading advisor, (3) banking or thrift institution, (4) accountant or accounting firm, (5) lawyer or law firm, (6) pension consultant, (7) real estate broker or dealer, or (8) sponsor or syndicator of limited partnerships.

### Other Business Activities

#### **PFS, THE BROKER-DEALER**

PFS is registered as an investment adviser and a broker-dealer. PFS’ registration as a broker-dealer is material to PFS’ advisory business because substantially all of PFS’ managed accounts are held with PFS’ broker-dealer. Depending upon the securities registrations held by each individual advisor, PFS 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, real estate investment trusts, alternative investments, and a variety of other securities and insurance products approved for sale by PFS. Several of PFS’ principal executive officers and management persons, including PFS’ Co-CEOs and Executive Vice Presidents are each individually registered with PFS’ broker-dealer. As discussed above in Item 5. Fees and Compensation, and Item 12. Brokerage Practices of this Brochure, PFS’ relationship as a broker-dealer presents a variety of material conflicts of interest with its clients. PFS has a separate, fully disclosed clearing arrangement with Wells Fargo Clearing Services.

#### **Other PFS-Related Companies and Material Conflicts of Interest**

As part of the investment advisory programs offered to clients, PFS, in its capacity as a broker-dealer, provides brokerage execution services to PFS advisory clients participating in PFS’s managed account 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 managed accounts back to the accounts paying such 12b-1 fees unless the position is excluded from billing. You may be able to receive these brokerage and execution services more cheaply at competing RIAs.

PFS is affiliated with Prospera Life & Annuity, Inc. (PLA), an insurance general agency under common ownership with PFS. Prospera Financial, LLC is the direct owner of PFS and PLA. Some of our investment advisor representatives are insurance agents of PLA and some investment advisor representatives are independently licensed as insurance agents. In these capacities, PFS and our investment advisor representatives may recommend insurance products in connection with investment advisory services. You are not obligated to purchase any insurance products through PLA or through our investment advisor representative acting in their individual capacity as an insurance agent. However, when you do purchase such products, commissions for the sale of insurance products from various, unaffiliated, insurance companies are received. Implementing and purchasing of any insurance product is solely at your discretion.

The Firm is also registered with the National Futures Association (“NFA”) as an introducing broker for managed futures.

Some of our investment advisor representatives use Wells Fargo/First Clearing programs through the IAR’s independent investment advisor firm. You are not obligated to purchase any advisory services through our investment advisor representative acting in their individual capacity as an advisor for these additional entities.

### Third Party Investment Advisors

As described in Item 4 – Advisory Business and Item 5 – Fees and Compensation, we have formed relationships with independent, third-party investment advisors. When we refer clients to a third-party investment advisor through our programs, we will receive a portion of the fee charged. Therefore, we have a conflict of interest in that we will only recommend third party investment advisors available through the programs described in Item 5 of the Disclosure Brochure.

## ITEM 11 – CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

### Code of Ethics

PFS and our supervised persons will buy or sell for their personal accounts investment products identical to those recommended to clients. Section 204A-1 of the *Investment Advisers Act of 1940* (Act) requires us to establish, maintain and enforce a Code of Ethics, which we have done. We are considered a fiduciary according to the Act and have a fiduciary duty to our clients. As a fiduciary, it is our responsibility to provide fair and full disclosure of all material facts and to act solely in the best interest of each of our clients at all times. This fiduciary duty is considered the core underlying principle for our Code of Ethics which also covers Insider Trading and Personal Securities Transactions Policies and Procedures. We require all supervised persons to conduct business with the highest level of ethical standards and to comply with all federal and state securities laws at all times. At least annually, all supervised persons will sign an acknowledgement that they have read, understand and agree to comply with our Code of Ethics. We have the responsibility to make sure that the interests of all clients are placed ahead of our interests or our supervised person's own investment interest. Full disclosure of all material facts and conflicts of interest will be provided to you before any services are conducted. We must conduct business in an honest, ethical and fair manner and avoid all circumstances that might negatively affect or appear to affect our duty of complete loyalty. This disclosure is provided to give you a summary of our Code of Ethics. However, if you wish to review the Code of Ethics in its entirety, we will provide a copy promptly upon request.

### Participation or Interest in Client Transactions

PFS may, at its discretion and in its capacity as a broker-dealer, execute client orders for certain types of securities on a principal basis. We are not a clearing broker-dealer and, while we are authorized to do so, we do not currently maintain an inventory in any securities; however, when certain orders are received, we may execute the order for our proprietary account. When executing from its proprietary account, we may include a mark-up or mark-down, and subsequently bill the trade to the account of the client for which the order was executed. Any additional compensation earned by PFS from a mark-up is in addition to advisory fees charged to clients.

As a broker-dealer, PFS and our investment advisor representatives are also licensed as securities agents to sell securities products for commissions. This could present a conflict of interest in receiving both advisory fees and brokerage commissions. In most situations, the investment advisor representative will waive the brokerage commissions from recommended securities transactions enacted through an advisory program. However, when purchasing fixed-income securities still in syndication, we will receive a commission in addition to any advisory fees paid. As securities agents we receive mutual fund sales loads, 12(b)-1 distribution fees, variable annuity and variable life sales commissions and trail commissions from investments placed in your advisory account. As a result, there is a conflict of interest.

PFS and our investment advisor representatives licensed as securities agents are able to effect securities transactions for separate and typical compensation for any client requesting these services. Financial planning clients are not obligated to engage us to implement the financial planning recommendations made. The decision to implement any, all or none of the recommendations is solely at the discretion of the financial planning client.

### Personal Trading

PFS and our investment advisors will recommend or effect transactions for your accounts in securities in which a PFS director, officer, employee or other related person may also be invested directly or indirectly. This poses a conflict of interest to the extent that transactions in such securities on behalf of PFS clients that will advantage such related persons. However, PFS and its investment advisors are constrained by fiduciary principles to act in your best interests when managing your accounts. We monitor activity in client accounts in an effort to ensure that transactions are appropriate, and any such conflicts are resolved in a manner that is fair and equitable to clients.

## ITEM 12 – BROKERAGE PRACTICES

### **General Overview**

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. 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 offers its broker-dealer clients substantial financial strength and stability, economies of scale, and reliable technology.



PFS clients do not generally have the option to direct securities brokerage transactions to other broker-dealers or other account custodians. If, however, a client should request, and PFS approve, the use of a custodian other than WFCS for securities transaction execution, the client should be aware that PFS will generally be unable to negotiate commissions or other fees and charges for the client's account, and PFS would not be able to combine the client's transactions with those of other PFS clients purchasing or selling the same securities ("batched trades"), as discussed further below. As a result, PFS would be unable to reasonably ensure that the client receives "best execution" with respect to such directed trades. PFS may also be unable to provide timely monitoring of transaction activity or provide the client with quarterly performance reporting and other operational or administrative services.

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 an 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 and asset growth payments if PFS maintains its relationship with WFCS, along with sharing account fees and interest as described in this document. This is a conflict to recommend WFCS as your custodian and PFS as introducing broker dealer.

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 in this Item 12 and in Item 14. Client Referrals and Other Compensation below. 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.

### **Best Execution**

PFS seeks to obtain, through its clearing firms, the best combination of net price and execution when effecting brokerage transactions for client accounts. PFS periodically and systematically reviews WFCS' brokerage execution quality and PFS's processes to ensure that PFS continues to meet its best execution obligations for its clients.

A number of judgmental factors are utilized by PFS in analyzing overall trade execution quality and its selection of clearing firms. Such factors include, but are not necessarily limited to:

- The nature of the securities being purchased or sold
- Access to market participants, which may be limited due to thin or no trading activity for a particular security
- The size of the transaction
- The speed of the transaction
- The size of the spread
- The ability to obtain price improvement
- The desired timing of the transaction
- The activity existing and anticipated in the market for the particular security
- The execution, clearance, and settlement capabilities of the executing broker-dealer
- The overall trade execution quality of the executing broker-dealer as compared with other leading executing broker-dealers
- The executing broker-dealer's financial stability and industry reputation
- The efficiency and reliability of the executing broker-dealer's systems and technologies
- The quality of PFS's access to the executing broker-dealer's senior management and the executing broker-dealer's responsiveness to PFS
- The extent to which PFS can leverage the strength of its relationship with the clearing broker-dealer to improve overall service and technology

PFS mitigates these potential conflicts to best execution by conducting regular and rigorous reviews of its trading to monitor best execution for its clients.

### **Aggregation of Trade Orders**

Because PFS advisors generally manage their client's accounts independently of one another based on each client's specific needs and objectives,

transactions for each client account are often executed independently. When advisors believe it is appropriate or beneficial to do so, however, they will often aggregate the purchase or sale of multiple clients' securities together to help facilitate best execution and provide each client with the same execution price. Aggregating multiple client orders together is particularly useful when PFS or your advisor is utilizing model portfolio management strategies.

When PFS and its advisors' aggregate orders, they do so in a manner reasonably designed to ensure that no participating client obtains a more favorable execution price than other clients. When PFS or your advisor aggregates multiple client orders, transactions are typically allocated pro rata to the participating client accounts in proportion to the size of the order placed for each account. PFS or your advisor may increase or decrease the amount of securities allocated to each account, if necessary, to avoid holding odd lot or small numbers of shares for particular clients. Additionally, if PFS is unable to fully execute an aggregated order and PFS determines that it would be impractical to allocate a small number of securities among the accounts participating in the transaction on a pro rata basis, PFS will allocate such securities in a manner determined in good faith to be fair and equitable to the clients involved.

In the event a money manager ("Manager") through the Summit Program elects to utilize brokers or dealers other than PFS to effect a transaction in a security (commonly referred to as "stepping out" a trade), brokerage commissions, markups and markdowns, and other charges for those transactions are generally charged to the client by the executing broker or dealer, whereas the wrap fees assessed by PFS cover the costs of brokerage commissions and other charges on transactions effected through PFS. Clients in the Summit-OP Program should be aware that, in cases where a Manager engages in step-out trades, the executing broker or dealer may assess a commission markup or markdown or other charge for having executed the transaction, which will be in addition to the wrap fee assessed by PFS. In such cases, the net purchase or sale price reflected on trade confirmations and brokerage statements provided by PFS for those trades will include the cost of brokerage commissions or dealer markups or markdowns charged by the executing broker and paid for by the client. Due to the additional costs often incurred by clients when Managers engage in step-out trades, the Managers that elect to engage in step-out trades will generally cost clients more than those Managers that do not engage in step-out trades. Some Managers have historically directed most, if not all, of their program trades to outside broker-dealers.

In the selection of brokers or dealers to effect transactions, the Manager is expected to comply with its best-execution obligations and consider all relevant factors, including, but not limited to, the speed and efficiency, execution quality, commission rates, and responsiveness of the executing broker or dealer. The Manager may select brokers or dealers that provide the Manager research or other transaction-related services and may cause the client to pay such brokers or dealers commissions or other transaction-related fees in excess of those that other brokers or dealers may have charged, including PFS. Such research and other services may be used for the benefit of the Manager's accounts as and where permitted by rule or regulation.

Managers that specialize in fixed income, international, small-cap, or ETP disciplines may be more likely to trade away from PFS due to market conditions, liquidity, exchange availability, or other factors they consider relevant in satisfying their best-execution obligations to clients.

Clients should understand that PFS does not evaluate whether a Manager is meeting its best-execution obligations to clients when trading away, as it is not a party to those transactions and is not able to negotiate the prices obtained or transaction-related charge(s) assessed between the Manager and the executing broker or dealer. PFS does not discourage or restrict a Manager's ability to trade away.

Clients participating in the PFS SMA/UMA Program should review the respective Manager's Form ADV Disclosure Brochure carefully prior to deciding to do business with any particular Manager. Among other things, the Manager's Brochure must disclose the Manager's conflicts and various sources of compensation, best execution policies and practices, and the costs incurred by clients that result from engaging in step-out trades, among other things. Clients should also discuss the use or intended use of any particular Manager with their advisor, including the Manager's trading practices and the costs that will be borne by the client by choosing to participate in the PFS SMA/UMA Program.

#### **Research and Other Soft-Dollar Benefits**

PFS does not use commissions to pay for research and brokerage services (i.e., soft-dollar transactions). Research, along with other products and services other than trade execution, are available to PFS on a cash basis in accordance with the terms of PFS's clearing agreement with Wells Fargo. Certain product sponsors, including Wells Fargo, provide us with other economic benefits as a result of sales activities directed to the sponsors, including but not limited to, financial assistance or the sponsorship of conferences and educational sessions, marketing support, incentive awards, payment of travel expenses, tools to assist us in providing various services to you such as reporting programs and portfolio analysis and directing brokerage transactions in our capacity as a broker-dealer.

#### **WFCS FDIC Sweep Programs ("FDIC")**

WFCS offers a FDIC cash sweep program ("Program"). The Program is the core account investment vehicle used to hold your operational cash balances used to pay advisory fees, fund withdrawals, and other recurring needs along with cash awaiting reinvestment. 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, but we do not set this interest rate.

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 clients 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.

### Recommendation of WFCS

For the majority of services we offer, we require accounts be established and held through us as an introducing broker-dealer and generally cleared through WFCS. Both accounts managed by PFS investment advisor representatives and accounts established through a Wells Fargo sponsored program can be established at PFS and cleared through WFCS. However, in limited cases when WFCS cannot accommodate your securities holdings, an account may be established at a broker-dealer you select.

If you direct us to use a particular broker-dealer or other qualified custodian, (a) we may not be able to obtain the best prices and execution for the transaction and (b) you may receive less favorable prices than would otherwise be the case if you had not designated a particular broker-dealer or qualified custodian. Further, clients with directed brokerage arrangements are not able to participate in aggregate trades (i.e. block trades) and directed trades may be placed after effecting non-directed trades.

The general requirement to use WFCS is based on the fact that we have established a clearing agreement with First Clearing as our preferred clearing broker-dealer and qualified custodian. The decision to use WFCS is based on past experience, minimizing commissions and other costs as well as offerings or services WFCS provides us that we and our clients may require or find valuable such as online access. You may pay commissions to us and/or WFCS that are higher than those obtainable from other broker-dealers in return for products and services offered through us and WFCS and fee structures of various broker-dealers are periodically reviewed to ensure clients are receiving best execution. Accordingly, while we consider our rates competitive, they will not necessarily be the lowest possible commission rates for your account transactions.

Through the relationship with WFCS, we receive economic and non-economic benefits, which creates conflicts of interest. These benefits include, but are not necessarily limited to:

- a dedicated service group and a Relationship Manager dedicated to PFS accounts on the WFCS 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
- access to block trading which provides the ability to aggregate securities transactions
- 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 InfoMax
- access to an electronic communications network for client order entry and account information.

The decision to use WFCS is also directly related to PFS' participation in advisory programs sponsored by Wells Fargo. Wells Fargo Advisors and First Clearing are trade names for the parent company WFCS. Not all Registered Investment Advisors require their clients to direct brokerage to a custodian, and the benefits detailed above create a conflict of interest for PFS to recommend this custodian instead of another. By directing brokerage to this custodian, PFS may be unable to achieve most favorable execution of client transactions, and this practice may cost you more money.

PFS receives certain benefits which create a conflict for it to recommend WFCS. These conflicts include incentive payments predicated on new assets PFS places with WFCS, margin debit balance, lending, and cash credit balance profit sharing, sharing in transaction or account service fees, sponsorships of PFS conferences, reduced internal account administration fees once we achieve minimum advisory asset levels, shared revenues from lending activities to PFS accounts, the FDIC sweep conflict detailed above, and additional substantial cash payments to maintain business with WFCS over the next few years including retentions cash bonuses, technology credits, cash bonuses for recruiting new advisors to the WFCS platform and cash payments if advisors from Wells Fargo do not transfer to PFS, and includes a termination fee if we remove our business from WFCS. While clients may receive beneficial rates at WFCS, there is a conflict for PFS to recommend lending activities for its clients through WFCS or any other lender where PFS shares in the interest revenue or uses the proceeds to purchase products we profit from such as in the case of insurance premium financing.

#### Aggregation of Client Orders

Transactions implemented by PFS for client accounts are generally affected independently, unless we decide to purchase or sell the same securities for several clients at approximately the same time. This process is referred to as aggregating orders, batch trading or block trading and we use it when we believe such action may prove advantageous to our clients. When we aggregate client orders, we allocate securities among client accounts on a fair and equitable basis. Typically, the process of aggregating client orders is done to achieve better execution, to negotiate more favorable commission rates or to allocate orders among clients on a more equitable basis to avoid differences in prices and transaction fees or other transaction costs that might be obtained when orders are placed independently. Under this procedure, transactions will be averaged as to price and will be allocated among clients in proportion to the purchase and sale orders placed by the PFS investment advisor representative for each client account on any given day. If an aggregated order is unable to be filled completely, the filled portion of the transaction will be re-allocated on a random basis. When PFS aggregates client orders for the purchase or sale of securities, including securities in which an associated person will invest, we will do so in accordance with the parameters set forth in the SEC No-Action Letter, *SMC Capital, Inc.* We do not receive any additional compensation or remuneration as a result of aggregation.

### **ITEM 13 – REVIEW OF ACCOUNTS**

PFS investment advisor representatives are charged with providing all investment advice and conducting on-going reviews of all accounts for your accounts. PFS investment advisor representatives are also in charge of selecting and/or recommending money managers to you.

Your investment advisor representative regularly reviews your accounts, preferably quarterly but no less often than annually. More frequent reviews may be triggered in the event of changes in market conditions, money manager personnel, management style, or fund closures. Your investment advisor representative is available to discuss the management and performance of your account and changes in your situation which may have an impact on how your account is managed. Account portfolios with individual equity securities and fixed income securities are reviewed on a more frequent, on-going basis.

Your assets that are managed by money managers are reviewed and monitored by the selected money manager. The frequency of reviews conducted by money managers will vary from manager to manager, but typically reviews are conducted at least quarterly. Triggering factors for changes to underlying portfolios within a money manager portfolio include the relative valuation changes between asset classes, deviation from management style by manager, or fund closures.

### **ITEM 14 – CLIENT REFERRALS AND OTHER COMPENSATION**

#### Client Referrals

PFS and its investment advisor representatives may enter into arrangements as and/or with individuals (“Solicitors”) who will refer clients that may be candidates for investment advisory services. In return, we agree to compensate or be compensated as the Solicitor for the referral. Compensation to the Solicitor is dependent on the client entering into an advisory agreement with PFS. Compensation to the Solicitor may be an agreed upon percentage of the PFS investment advisory fee or a flat fee, depending on the type of advisory services PFS provides to the referred client and the agreed upon compensation arrangement between us and the Solicitor. Our referral program will be in compliance with federal and state regulations (as applicable). The solicitation/referral fee is paid pursuant to a written agreement retained by both PFS and the Solicitor. The Solicitor will be required to provide the client with a copy of our Part 2 and a Solicitor Disclosure Document at the time of solicitation. The Solicitor is not permitted to offer any investment advice on behalf of the Advisor.

#### Additional Compensation

PFS investment advisor representatives that are also licensed as insurance agents receive commissions and other incentive awards for recommending and/or selling of annuities and other insurance products. These commissions and additional compensation create a conflict of interest and could affect the judgment of these individuals when making recommendations.

PFS IARs are also paid on a compensation grid that increases payout with increasing revenue. Therefore, it is a conflict for them to recommend any service to you. They also receive increased payout at the end of the calendar year pursuant to this compensation grid, which is an additional conflict to recommend services as the calendar year progresses.

- Non-Purpose Loan Program

PFS offers a non-purpose loan (“NPL”) “custom credit” program to refer clients to WFCS or other banking institutions for loans unrelated to securities accounts. PFS and its IARs receive third-party referral fee compensation based on the amount of the outstanding loan. This compensation is a conflict of interest since PFS has a financial incentive to refer clients interested in such lending to NPL partners. Clients are not required to use the NPL program and can work directly with other banks to negotiate loan terms or obtain other financing arrangements. These non-securities-based loans are not the cheapest financing available.

- Black Diamond Client Portal

Clients may access and securely store wealth management related data and reports electronically via Prosper’s client portal developed by technology provider Black Diamond for a fee. This fee may be paid by the IAR or passed on to the client, which is a conflict for us to recommend you pay for this service.

- Estate Planning Tools

Clients may choose to access and utilize Estate Planning Tools such as Trust & Wills or Wealth.com to create estate planning documents such as wills, powers of attorney, and other instruments. IARs may mark-up this tool to clients at a profit, which is a conflict for us to recommend to you. You may be able to access these services from these or other providers at cheaper cost.

- Investment Banking Services

Prospera IARs receive a referral fee when recommending outside investment banking services. This is a conflict for us to recommend such services, which may be available at a cheaper cost from other providers.

- Related Fiduciary Services

Prospera IARs offer certain services as an outside business activity such as expert witness testimony, consulting on special needs trust set-up, and other related fiduciary services. It is an inherent conflict when they recommend such services to you due to the IAR and Prospera (for facilitating such payments) receiving additional compensation from these services, which may be available cheaper by another provider.

## ITEM 15 – CUSTODY

Custody, as it applies to investment advisors, has been defined by regulators as having access or control over client funds and/or securities. In other words, custody is not limited to physically holding your funds and securities but also if we have the ability to access or control those funds or securities. Accordingly, we are deemed to have custody and to have and implement proper procedures.

The custody situations we encounter are limited to the following conditions: (1) We may deduct fees from advisory accounts, (2) funds may be issued directly from your custodian account including by standing letters of authorization to effect transactions and by our custodian taking our instructions to move your funds based on your authorization, and (3) some PFS investment advisor representatives have power of attorney or trustee duties for clients. For those accounts in which PFS has custody, the firm has established the following procedures to ensure compliance with the SEC’s Custody Rule.

- Your funds and securities are held with a qualified custodian, such as First Clearing, in a separate account in your name.
- You must direct that we establish an account for you including written awareness of the qualified custodian’s name, address and the manner in which your funds or securities are maintained.

- Finally, we have contracted with an independent, third-party accounting firm to perform an annual, surprise examination verifying the location of client funds and securities. The accounting firm's report is available through the SEC's Investment Adviser Public Disclosure page at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can view our information on this website by searching for "Prospera Financial Services" or searching by our firm's CRD number (10740) or our SEC number (801-65845).

You will receive statements at least quarterly from First Clearing, or from the selected qualified custodian at which your accounts are maintained. In addition, you may receive annual or more frequent performance reports from our custodians or a third-party money manager. You should carefully review these statements and are urged to compare the statement against reports received from us or from your investment advisor representative. If you have questions about your account statements, please contact us or the qualified custodian shown as preparing the statement.

## ITEM 16 – INVESTMENT DISCRETION

### Discretionary

When PFS manages a discretionary account, we require written authority to determine which securities and the amounts of securities that are bought or sold. This authority is limited by your stated investment objectives, guidelines and restrictions, and by our fiduciary obligation to act in your best interests. We monitor advisory accounts periodically for consistency with these limitations. Depending on the Wells Fargo or other sub-advisor program for which you contracted, PFS investment advisor representatives also have discretionary authority to select and remove third-party investment advisors and/or money managers. Any limitations on this discretionary authority shall be included in this written authority statement. You may change/amend these limitations in writing. Although commissions are normally waived in advisory accounts, PFS investment advisor representatives that are also securities agents have the ability to charge commissions when implementing transactions. In addition, we have the ability to set commission rates on a discretionary basis. In determining the amount of commissions that will be charged, the PFS securities agent will take into account FINRA's 5% guideline policy, the type of security involved, the availability of the security in the market, the price of the security and the amount of money involved in the transaction. PFS investment advisor representatives that are also securities agents have the discretion to determine the amount of commission that will be on products other than mutual funds, insurance products, or alternative products.

### Non-Discretionary

If you decide to grant trading authorization on a non-discretionary basis, we are required to contact you before implementing changes in your account. Therefore, you will be contacted and required to accept or reject our investment recommendations including:

- The security being recommended
- The number of shares or units
- Whether to buy or sell

Once the above factors are agreed upon, we will be responsible for making decisions regarding the timing of buying or selling an investment and the price at which the investment is bought or sold. If your accounts are managed on a non-discretionary basis and you are unable to be reached or are slow to respond to our request, such delay can have an adverse impact on the timing of trade implementations and we may not achieve the same execution price.

## ITEM 17 – VOTING CLIENT SECURITIES

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) have the sole responsibility for taking or not taking any action regarding these legal matters.

## ITEM 18 – FINANCIAL INFORMATION

PFS does not require or solicit prepayment of more than \$1,200 in fees per client six months or more in advance. Therefore, we are not required to include a balance sheet for our 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, we have not been the subject of a bankruptcy petition at any time.



**PROSPERA**  
FINANCIAL SERVICES

# Part 2A Appendix 1: Wrap Fee Program Brochure

Date of Disclosure Brochure: September 30, 2024

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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, 2023.

- Added the Black Diamond client access program.
- Added Estate Planning third-party services.
- Added the SEI Asset Management program.

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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 Clearing Services, LLC (“WFCS”), 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. WFCS is also affiliated with Wells Fargo Investment Institute, Inc. (“WFI”), a registered investment advisor that provides advisory services and research to WFCS.

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 Summit Advisory Program and WFCS’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 WFCS’s Asset Advisor Program, CustomChoice Program, Private Investment Management Program, and Private Advisor Network Program (“WFCS Programs”) are described herein, these programs are sponsored, controlled, administered, and billed solely by WFCS, 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, WFCS 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 WFCS 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.

### **Summit Advisory Program - Services, Fees, and Compensation**

PFS sponsors the Summit Advisory Program (Summit), an investment advisory asset allocation program. Summit is a wrap-fee program because it does not charge transaction costs to the client. The Summit account enables an advisor to assist the client in selecting an appropriate model portfolio or 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 accounts are custodied with WFCS.

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

The maximum management fee for a Summit Account shall not exceed 2.15% of assets under management.

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

Only PFS investment advisor representatives serve as portfolio managers in Summit. Therefore, participants in Summit must be advisory clients of PFS. Through Summit, we provide investment supervisory and management services defined as providing continuous investment advice based on your individual needs. Services are provided on a discretionary (Advisor Directed) or non-discretionary basis as you choose. Upon execution of a Summit Advisory Agreement, we will assist you in establishing an individual account (Account) cleared through WFCS. All client accounts through the Summit program must be established through WFCS, 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 2.15% of assets under management.

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 WFCS’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 WFCS 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. WFCS 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 2.15% of assets under management.

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 select appropriate models or 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.

WFCS, 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 2.15% of assets under management.

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 WFCS-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, but 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 2.15% 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 is 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.

- 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.

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.

## SEI

The annual management fee is negotiable and shall be as set forth in the "Payment of Advisor Fees" section of the SPTC Investor Application and the associated fee schedule. Prospera and the advisor will share in the management fee, which shall not exceed 2% of assets under management. In addition to the fees described above, clients incur certain charges imposed by third parties other than Prospera and the advisor, such as SEI and SPTC, including but not limited to, SEI fund management fees and administrative servicing fees, SEI account maintenance fees, and IRA and qualified retirement plan fees. SEI charges 0.3 percent – 1.2 percent of AUM per year for investment management services performed by SEI, based upon the type of model portfolio selected by the client. Neither Prospera nor the advisor receives any portion of third-party fees. Further information regarding fees and charges assessed by an SEI fund is available in the appropriate prospectus. More information that explains the fees and charges paid by clients participating in the program can be found in the SEI Account Application (including the associated fee schedule, custody agreement, custody account fee schedule, and investment management agreement for separately managed accounts), SEI's Form ADV Part 2A Brochure, and/or offering document for the specific investment products used in the program.

The SEI Mutual Fund Strategies program is generally available to clients with no account minimum. The SEI ETF Strategy is generally available to clients with an initial value of at least \$25,000. The SEI Managed Account Solution is generally available to clients with an initial value of at least \$50,000. The SEI Asset Management Program is generally available to client accounts with an initial value of at least \$100,000.

## 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 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. 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 Summit, 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. The interest charges, combined with the Program Fee or Management 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 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.

### **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 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, 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. 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 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 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 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, 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, 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, where applicable, but also the additional payments and compensation we and our affiliates receive from funds (and their Affiliates), including compensation for Platform Support.

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.

Any 12b-1 fees received from non-excluded 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.

### **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 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. The interest charges, combined with Fee, may exceed the income generated by the assets in your Account and, as a result, the value of your Account may decrease. In determining the Account Value, we will use the closing prices or, if not available, bid prices of the last recorded transactions for listed securities, options and over-the-counter securities. For mutual funds, we will use the fund's most current net asset value, as computed by the fund company. We will use information provided by quotation services believed to be reliable in determining the Account Value. If any such prices are unavailable or believed to be unreliable, we will determine prices in good faith so as to reflect our understanding of fair market value. The Fee will be applied to cash alternatives (i.e., money market funds) held inside the Account. Clients will, in most instances, pay more in fees with respect to sweep vehicle holdings, than the interest earnings that may be generated by these sweep vehicle holdings. Due to trade date or settlement date accounting, the treatment of accrued income, short positions and other factors, the Account Value used in the calculation of fees could differ from that shown on your monthly account statement and/ or performance report.

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

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

**Special Disclosures for ERISA Plans.** In this Brochure, PFS has disclosed conflicts of interest, such as receiving additional compensation from third parties (e.g., 12b-1 fees, sub-transfer agent fees, and revenue sharing) for providing marketing, recordkeeping, or other services in connection with certain investments. PFS, however, has adopted policies and procedures that are designed to ensure compliance with the prohibited transaction rules under the Employee Retirement Income Security Act of 1974 ("ERISA"), as amended. For example, PFS has taken several steps to address the conflict of interest associated with PFS's or PFS's advisors' receipt of compensation for services provided to ERISA plans.

First, an advisor negotiates the compensation with ERISA plan sponsors or participants ("ERISA clients") and the compensation is either an annual fee for ongoing services based on a percentage of assets under advisement, a flat fee, or an hourly rate. Second, to the extent that an advisor receives additional compensation from a third party, the advisor must report it to PFS to enable the additional compensation to be offset against the fees that the ERISA clients would otherwise pay for the advisor's services. Third, PFS has established a policy not to influence any advisor's advice or management of assets at any time or for any reason based on any compensation that PFS or the advisor might receive from third parties. In no event will PFS allow advisors to provide advice or manage assets for ERISA clients if they have conflicts of interest that PFS believes are prohibited by ERISA.

As a covered service provider to ERISA plans, PFS will comply with the U.S. Department of Labor regulations on fee disclosures, effective July 16, 2011 (or such other date as provided by the Department). Thus, PFS and its advisors will disclose

- direct compensation received from ERISA clients;
- indirect compensation (e.g., 12b-1 fees) received from third parties; and
- transaction-based compensation (e.g., commissions) or other similar compensation shared with related parties servicing the ERISA plan.

These fee disclosures will be made reasonably in advance of entering into, renewing, or extending the advisory service agreement with the ERISA client.

## Brokerage, Clearing and Custody

**Summit, 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 WFCS 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 WFCS,
- Access to an electronic communications network for client order entry and account information.

## Item 5 – Account Requirements and Types of Clients

### Minimum Account Size

PIM requires a minimum of \$50,000 to open an account. , 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 WFCS, 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.

Summit does not have a minimum account size. However, your Financial Advisor will be charged a fee if your advisory account value drops below the stated minimum account size or \$10,000 in Summit accounts. Therefore, it is a conflict for your Financial Advisor to recommend you increase your account size below the minimum stated program limits or \$10,000 in Summitt accounts.

### 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.

## **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 WFCS Advisory Program Account is terminated, WFCS 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. Summit 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 WFCS 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 Summit 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.

### **Summit and PIM Programs Manager Due Diligence Process**

As described above in the "Services, Fees, and Compensation section, Summit and PIM Financial Advisers serve as portfolio Managers. These Portfolio Managers select models and 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 Advisor Network Program Manager Due Diligence Process**

The Private Advisor 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 WFCS 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).

### **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 and/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 purchased 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 wrap 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 through Wells Fargo, 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 Summit, 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.

The SEI Asset Management Program enables the advisor to collect financial data from clients, help clients determine the appropriateness of the program account, and establish an asset allocation strategy for the client. SPTC will invest the account according to the client's chosen asset allocation strategy and will rebalance the investments within the account. Clients will complete and submit to SPTC an account application that includes, but is not limited to, the client's name, address, telephone number, social security or tax ID number, date of birth, and account investment selections, instructions, and authorizations.

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

Only Investment Adviser Representatives of PFS serve as Portfolio Managers for Summit 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).

Prospera does not place any restrictions on clients' ability to contact or consult with their portfolio managers during normal business hours. Clients may also contact their advisor to discuss the management of their PFS accounts during normal business hours.

### **Item 9 - Additional Information**

#### **Disciplinary Information**

On June 3, 2015, without admitting or denying the findings, the Firm consented to the sanctions and to the entry of findings (Case number 2014040008801) by FINRA that it failed to transmit 32,636 reportable order entry events (ROES) to the order audit trail system (OATS) on 140 business days. The findings stated that the firm's supervisory system did not provide for supervision reasonably designed to achieve compliance with respect to the applicable securities laws and regulations, and the rules of FINRA. The firm's written supervisory procedures (WSPs) failed to provide the minimum requirements for adequate WSPs for OATS. The firm was censured and fined \$12,500.00.

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.

**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 Asset Advisor, Custom Choice, and Private Investment Management Programs do not employ any Third-Party Investment Advisers. However, the Private Advisor Network and 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 Summit third party managers must be approved by PFS.

PFS offers a non-purpose loan ("NPL") "custom credit" program to refer clients to WFCS or other banking institutions for loans unrelated to securities accounts. PFS and its IARs receive third-party referral fee compensation based on the amount of the outstanding loan. This compensation is a conflict of interest since PFS has a financial incentive to refer clients interested in such lending to NPL partners. Clients are not required to use the NPL program and can work directly with other banks to negotiate loan terms or obtain other financing arrangements. These non-securities based loans are not the cheapest financing available.

Clients may access and securely store wealth management related data and reports electronically via Prosper's client portal developed by technology provider Black Diamond for a fee. This fee may be paid by the IAR or passed on to the client, which is a conflict for us to recommend you pay for this service.

Clients may choose to access and utilize "Trust & Will" or Wealth.com to create estate planning documents such as wills, powers of attorney, and other instruments. We may mark-up this tool to clients at a profit, which is a conflict for us to recommend to you. You may be able to access these services from "Trust & Will" or other similar providers at cheaper cost.

### **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 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 WFCS Programs have provided WFCS 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 WFCS 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 WFCS 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 WFCS or a Discretionary Manager accepts delivery of prospectuses on your behalf, WFCS 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 Advisor. Notwithstanding the authorization described in this paragraph and apart from any requests you may make for prospectuses, WFCS 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 Advisors.** 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 any advisory program and 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, equity in our holding company, 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 Summit programs over other programs available through PFS. Clients are urged to read and consider the contents of this Brochure carefully and to inquire about PFS's or their advisor's various sources of compensation and conflicts of interest in making a fair and reasonable assessment of the fees and charges clients will pay for the services rendered by PFS and their advisor. Further information about PFS's and your advisor's sources of compensation and conflicts of interest is described in this Brochure.

### **Payments to PFS**

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

As also discussed elsewhere in this Brochure, PFS uses Wells Fargo for WFCS Programs and Summit. PFS receives substantial revenue-sharing payments from Wells Fargo based on client assets held in 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 Wells Fargo that it believes is beneficial to its clients, PFS's clearing relationships with Wells Fargo provides PFS's broker-dealer with substantial economic benefits by using itself as the broker-dealer and Wells Fargo as the clearing firm for WFCS Programs and Summit 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 Wells Fargo. This program along with the 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 Wells Fargo as its clearing firm for trade execution and custody over other firms that do not or would not revenue share with PFS. Additionally, by using itself as the broker-dealer for Summit and WFCS 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.

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 Wells Fargo FDIC cash balance program create substantial financial benefits for PFS and Wells Fargo. 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 Wells Fargo 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. 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 offers 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.

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 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. It should be noted that implementing trades on a block or aggregate basis may be less expensive for Client Accounts.

### **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 operational cash balances used to pay advisory fees, fund withdrawals, and other recurring needs along with cash 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. We do not set this interest rate. 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.

### **PFS 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.