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LPL Financial

Use of

Morningstar[®] Retirement ManagerSM
for its Employee Advice Solution for
managed accounts

DALBAR Certified:
Investment Model

October 30, 2014



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Investment Model Provider Fact Sheet: LPL Financial

This Manager	Manager's Team	Manager Affiliations
Experience as Manager: LPL Financial: 22 Years Morningstar Associates: 14 Years	Number of Advisers on Team: 13,800	Affiliated Firm: -Fortigent, LLC. -The Private Trust Company, N.A. -Independent Advisers Group Corporation
Background Check Clear	Number of Support Staff: 3,000	Number of Advisers in Firm: 13,800
Client Rating of Trust Not Tested	Primary Source of Team Revenue: Product Commissions & Fees	Primary Business of Firm: Provides integrated brokerage and investment advisory services
Client Rating of Financial Performance: Not Tested	Total Assets Managed/ Supervised by Team: \$447 Billion	Broker/Dealer Name: LPL Financial, LLC.
Client Rating of Advice Quality: Not Tested	Retail Clients Served: Number: 6.9 million Assets: \$429 Billion	RIA Name: LPL Financial, LLC.
Client Rating of Adviser Service Quality: Not Tested	Retirement Clients: Number: 35,000+ Assets: \$105-\$115 Billion	Provider Affiliations: None
Primary Compensation Sources: Advisory Fees	Date Previous Audit Performed: July 8, 2013	Other Affiliations: None
Liability Insurance: \$50 Million Errors & Omissions Fiduciary Liability	Web Site www.LPL.com	Geographic Coverage
	E-Mail/Phone Dan.Notartomaso@LPL.com (980) 321-1303	
	Surety Bond: \$20 Million	National independent broker/dealer and provider of investment advisory services.

Investment Model Fact Sheet: Morningstar[®] Retirement ManagerSM

Investment Model Characteristics						
Inputs	Age	✓	Time Horizon	✓	Risk Tolerance	✓
	Current Investments	✓	Other Assets, including Human Capital	✓	Sources of Income, including Human Capital	✓
	Investment Preferences	✓				
Outputs	Explanation of Asset Classes	✓	Allocation by Asset Class	✓	Allocation by Investment	✓
	Risk Category Selected	✓	Allocation Graphic	✓	Method of Acceptance	None
Defaults	Social Security income, life expectancy and retirement age.					
Implementation	Manager has discretionary authority to implement model results with no further authority from plan participant.					
Risk Categories						
	Allocation		Objective			
Risk Category	Equity Range	Fixed Income Range				
Conservative	0%-19%	100%-81%	This investment style is designed for those who want their savings to keep pace with inflation. It offers significant protection in weak markets.			
Moderate Conservative	20%-39%	80%-61%	This investment style is designed for those who want their savings to slightly outpace inflation. Those who invest this way will experience some losses in weak markets.			
Balanced	40%-59%	60%-41%	This investment style is designed for those who want their savings to experience modest growth in strong markets. When market conditions weaken, however, they may experience moderate losses.			
Moderate Aggressive	60%-79%	40%-21%	This investment style is designed for those who want their savings to experience a high rate of growth over the long run. Such investors, though, may experience sizeable losses when market conditions weaken.			
Aggressive	80%-100%	20%-0%	This investment is designed for those who are seeking to maximize growth and can tolerate substantial losses when market conditions weaken.			

Investment Policies	
Methodology	<p>Inputs are used in conjunction with an estimated value and risk characteristics of the participant’s human capital to create an individualized total market portfolio containing approximately 46% equities.</p> <p>Risk characteristics of human capital are assumed to be the equivalent of 30% equities.</p>
Vehicles	Mutual Funds, separate accounts, sub-accounts.
Restrictions	Model uses pre-selected investments that may include any asset class.
Oversight	Model is used exclusively as a designated investment option that is subject to selection and monitoring of the responsible plan fiduciary. There is no exemption applicable to using this investment model.

Services Rendered by LPL Financial

Investment Management Services			
Define the client's investment-related goals and objectives	✓	Choose investments and create portfolios according to the terms of the IPS	✓
Prepare and maintain the client's Investment Policy Statement ("IPS")	✗	Develop and maintain model portfolios	✓
Identify asset classes appropriate for client's portfolios	✓	Control and account for investment expenses	✓
Conduct due diligence for investment options	✓	Monitor investment options and prepare periodic investment reports	✓
ERISA Related Activities			
Conduct a fiduciary assessment	✓	Assist participants in selecting investments	✓
Oversee plan administration activities	✗	Support for DOL and IRS audits	✗
Construct QDIA investment alternatives	✓	Design rules for assigning participants to QDIAs	✓
Place participants in appropriate investments	✓	Select, hire and monitor other service providers	✗
Periodically report investment decisions made to plan sponsor and Named Fiduciary	✓	Periodically report fiduciary decisions made to plan sponsor and Named Fiduciary	✓
Review plan's success in meeting participants needs and retirement goals and make recommendations for changes	✓	Other: <ul style="list-style-type: none"> ✓ Education service to Plan Committee ✓ Participant Enrollment ✓ Participant Education ✓ 404(c) Assistance ✓ Investment provider liaison ✓ Plan search support/vendor analysis ✓ Benchmarking services ✓ Assistance identifying plan fees ✓ Custom model portfolios 	✓

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Investment Model Fee Structure

Usual fees charged for these services?

The fee for the model is generally between 75 and 125 basis points.

Contractual arrangements that could result in direct or indirect compensation to manager or to the firm that the manager represents if clients utilize the investment model?

No agreement exists in which LPL Financial receives compensation based on the investment selections made by model.

Sources of compensation and percentage from each source, largest first.

	Source	Percentage
1	Advisory Fees	100%

Other factors or suggestions from others that could improperly influence the how assets are managed?

None

Investment Model Provider Disclosures

The following important disclosures follow:

- DALBAR Certification
- Acceptance of Fiduciary Responsibility
- Manager Affiliations
- Plan Provider Affiliation
- Privacy Policy

DALBAR CERTIFIED

DALBAR has evaluated **LPL Financial's** intended use of the **Morningstar® Retirement ManagerSM** for its **Employee Advice Solution** for managed accounts to determine consistency with ERISA requirements for prudent selection and monitoring of designated investment options, generally accepted investment principles and reasonable investment practices.

The following evaluations were performed:

Due Diligence Requirements	DALBAR
DoL Minimum Selection Requirements	
Objective process to assess:	
• Manager qualifications	✓
• Quality of services offered	✓
• Reasonableness of fees charged for the service	✓
• Avoidance of self dealing	✓
• Avoidance of conflicts of interest	✓
• Avoidance of other improper influence	✓
Process that takes into account:	
• Experience and qualifications of the investment manager	✓
• Manager's registration in accordance with applicable federal and/or state securities law	✓
• Willingness of manager to assume fiduciary status and responsibility under ERISA	✓
• Use of generally accepted investment theories	✓
Additional DALBAR Standards	
Background Check	✓
Record of investment results for clients	Not Tested
Client trust and opinion of manager	Not Tested
Alignment of contract terms with services offered	Not Tested
Compliance with SEC No-Action Letter permitting advertising of DALBAR Rating	Not Tested

ACCEPTANCE OF FIDUCIARY RESPONSIBILITY

LPL Financial Advisors understands and agrees to act as a fiduciary and accept the personal responsibility for the investments made on behalf of plan participants (“Investors”) that elect to use its services. As a fiduciary, it will act in the best interest of these Investors and their beneficiaries.

The investment management that LPL Financial Advisors provides as a fiduciary will be based on its best judgment of what a prudent person would do under the same circumstances. As a fiduciary it is not responsible for the financial results that are achieved or not achieved, provided that it can document the prudent process used to arrive at the investment decisions.

As a fiduciary, LPL Financial’s investment model will be consistent with the principles of diversification so as to minimize the risk of large losses, unless under the circumstances it is shown to be imprudent to diversify.

The investment model LPL Financial provides as a fiduciary will be in accordance with the documents or other instruments governing the plan and consistent with ERISA and IRC.

MANAGER AFFILIATIONS

LPL Financial has disclosed that it is affiliated with the following firms:

- ✓ Fortigent, LLC
- ✓ The Private Trust Company, N.A.
- ✓ Independent Advisers Group Corporation

PLAN PROVIDER AFFILIATION

- ✓ None.

PRIVACY POLICY

LPL Financial is required to maintain all personal information about any client in the strictest confidence.

Information about any employee of a client of LPL Financial is disclosed only for the purposes of conducting due diligence and audits.

ADDITIONAL DISCLOSURES

LPL Financial has engaged Morningstar Associates, LLC. to provide an investment model to manage assets in compliance with ERISA requirements.

Investment Model Certification Results

DALBAR has evaluated the Morningstar® Retirement ManagerSM investment model to be offered as a managed account by LPL Financial’s Employee Advice Solution to determine if it meets the requirements to be used as a designated investment option as defined by the Employee Retirement Income Security Act of 1974, as amended [“ERISA”].

Morningstar Associates and LPL developed and maintain the Management Portal and allows LPL and IAR to use the Management Portal in providing the managed account service. Based on DALBAR’s understanding of the services provided by Morningstar Associates and Morningstar® Retirement ManagerSM to LPL Financial for its Employee Advice Solution, it is our opinion that Morningstar Associates is not acting as an investment manager as defined by ERISA section 3(38).¹

The methodologies used for the evaluation are presented in detail in the following sections. The evaluation methodologies applied were consistent with specific requirements of the regulations and best industry practices. There were no limitations or restrictions imposed on DALBAR in the selection or application of the methodologies used.

DALBAR has a 30-year history recognized by industry and government as an independent third-party expert in the business of providing evaluations, ratings and performance due diligence. DALBAR certifications are recognized as marks of excellence in adviser services, communications, electronic and telephone services. DALBAR is the only ratings firm with an SEC no-action letter exempting its evaluations from the testimonial rule.

Based on the results of the evaluation it has been determined that the investment model meets the requirements.

The results of the evaluation consist of:

- Specific Findings
- Footnotes
- Other Observations
- Explanation of Methods Used

¹ For Morningstar’s services in connection with the Employee Advice Solution, LPL pays Morningstar Associates license and other fees. These include fees based on the assets in the participants’ Plan accounts for which Managed Account Services are provided [that generally range from 7.5 basis points to 17.5 basis points of such assets], depending on the Morningstar services involved.

SPECIFIC FINDINGS

Compliance Test		Method of Evaluation	Result	Foot- notes
Is investment theory recognized as being generally accepted?		Evaluate Methodology Documentation and Model Test	OK	1
Performance record:				
	Performance record of model provided	Not Tested	N/A	2
	Test of capital preservation	Not Tested	N/A	2
	Test up-market performance	Not Tested	N/A	2
Cost		Compare to Comparable Models	OK	3
Other specific requirements and best practices:				
	Takes fees and expenses into account	Model Test	OK	4
	Requests and utilizes participant information about age, time horizons, risk tolerance, current investments, other assets, sources of income and investment preferences	Model Test	OK	5
	Utilize objective criteria to select and allocate designated plan investments.	Evaluate Methodology Documentation	OK	1
Does not:				
	Favor investments that compensate investment model provider or affiliates.	Review Application and Interview	OK	4
	Favor investments that result in greater compensation to investment model provider or affiliates.	Review Application and Interview	OK	4
	Base investment selection on criteria that cannot be expected to persist.	Evaluate Methodology Documentation	OK	6
Does:				
	Consider all designated investments except those noted below	Written Statement	OK	7
	Exclude employer securities	Written Statement and Model Test	OK	8
	Excludes investments that vary asset mix	Written Statement and Model Test	OK	8
	Exclude retirement income annuities	Written Statement and Model Test	OK	8

Compliance Test	Method of Evaluation	Result	Foot- notes	
	Provide participant with a list of exclusions.	Written Statement and Model Test	OK	8

FOOTNOTES

- 1 Screening and selection methodologies define a structured approach that applies the generally accepted investment variables of risk, asset allocation, time horizon and expected returns based on historical patterns. The methodology includes a “Human Capital” component, which favors more aggressive portfolios. See “Other Observations” that follow these footnotes for details.
- 2 Performance history was not tested due to insufficient time for which the model has been in use.
- 3 Fee charged for the model is generally between 75 and 125 basis points. These fees are within reasonable proximity of industry norms.
- 4 Fees for the investment model are not based on any action taken by users of the tool, or by any recommendation to specific investments or models. Fund expenses may be marginally higher due to the use of more aggressive portfolios.
- 5 The Model Test demonstrated that the information requested from plan participants meets industry best practices. This includes inputs of age, time horizons, risk tolerance, current investments, sources of income and other assets. As a best practice, the model may operate without all inputs being provided.
- 6 Passive investments are favored for funds selection, thus minimizing concern as to whether the selection criteria are based on factors that will persist.
- 7 All available investments are considered in a required investment selection of plan designated investments used by the computer model.
- 8 These categories of investments are excluded from the plan’s designated investments during the investment selection process.

OTHER OBSERVATIONS

- Tests conducted using DALBAR’s standard participant profiles yielded no meaningful results. Additional participant profiles were tested based on age, risk tolerance, human capital and financial capital. These scenarios were used in addition to DALBAR’s standard profiles and together served as the basis for the analysis.

Tests used for this certification was a departure from DALBAR’s standard for participant profiles. The DALBAR standard is based on various phases of employment and post-employment and consists of:

- **Qualified for plan...** At this stage the employee is given the option to participate in an unfamiliar plan and is seldom sufficiently informed to make a decision for the remainder of his/her work life. This can be an overwhelming decision.
 - Participants in this phase were treated by Morningstar® Retirement ManagerSM as “Aggressive” investors.

- **Investment Threshold...** A participant that has accumulated sufficient assets in their plan to warrant in-depth analysis will be receptive to guidance and tools to help with investment decisions. Before this threshold is reached, the participant will be unwilling to expend the time and attention required to manage a portfolio.
 - Participants in this phase were treated by Morningstar® Retirement ManagerSM as “Aggressive” investors.
- **Key Employee...** Typically the highly compensated employee is concerned about taxes and the success of the business. The retirement plan assets are probably not the majority of the Key Employee’s personal wealth.
 - Participants in this phase were treated by Morningstar® Retirement ManagerSM as “Aggressive” investors.
- **Pre-Retiree...** When the participant begins to focus on retirement the need for guidance increases and the interest in an income replacement solution becomes a central issue.
 - Participants in this phase were treated by Morningstar® Retirement ManagerSM as “Balanced” investors.
- **Retired...** Priority for the retired person is managing the retirement funds, controlling spending, estate planning, health and taxes.
 - Participants in this phase were treated by Morningstar® Retirement ManagerSM as “Moderately Conservative” investors.

In order to test the full spectrum of investment decisions made in the Morningstar® Retirement ManagerSM model, additional scenarios were provided by the model developer:

- **Moderately Conservative Portfolio**
 - Test required a 25 year old participant with an account balance of \$15,000, an annual salary of \$40,000, outside investments of an additional \$35,000 invested aggressively, and a low tolerance for risk.
 - Test required a 60 year old participant with an account balance of \$500,000, an annual salary of \$50,000, outside investments of \$50,000 conservatively invested, and a low tolerance for risk.
- **Balanced Portfolio**
 - Test required a 45 year old participant with an account balance of \$500,000, an annual salary of \$150,000, no outside investments and a low tolerance for risk.
 - Test required a 58 year old participant with an account balance of \$150,000 with a salary of \$65,000, no outside investments and a low tolerance for risk.

- **Aggressive Portfolio**

- Test required a 35 year old participant with an account balance of \$150,000 with a salary of \$65,000, no outside investments and a moderate tolerance for risk.
- Test required a 55 year old participant with an account balance of \$150,000 with a salary of \$100,000, no outside investments and a moderate tolerance for risk.

EXPLANATION OF METHODS USED

Evaluation	Description of Process
Compare to Comparable Investment Models	The cost and functionality of investment models that are known to be used for investment selection and asset allocation are compared to the computer investment model being evaluated for certification. The expenses associated with the invested assets were also compared to industry norms.
Evaluate Methodology Documentation	All methodology documentation is evaluated to determine the investment approach used in the investment model being evaluated for certification.
Interview	Investment model builder was interviewed to clarify certain issues raised during the evaluation process.
Model Test	<p>The standard DALBAR test of participant profiles were used. An allocation was established by answering the 8 questions in a likely manner of an average participant This average participant allocation was compared to five real-life scenarios. These scenarios are (1) a participant new to the workforce, (2) a participant at the investment threshold, (3) a highly compensated employee (4) a pre-retiree and (5) a retiree.</p> <p>These tests yielded no meaningful results and were replaced by tests conducted by the investment model developer.</p>
Review Application	Information submitted on the application for certification is examined.
Written Statement	Additional written statements were requested and provided by the investment manager.