Portfolio Turnover Ratio Calculation and Annual Transaction Charges – Explanatory Information

LPL Financial furnishes information in the annual performance report for its Strategic Asset Management I (SAM) and Optimum Market Portfolios (OMP) advisory program accounts that are serviced by LPL investment adviser representatives regarding the portfolio turnover ratio of the account and the total annual transaction-related fees charged to the client. This information is provided in connection with Prohibited Transaction Class Exemption 86-128 under ERISA, which covers LPL Financial transaction-related fees for brokerage transactions in such accounts.

As background, portfolio turnover ratio is a measure of trading activity in a portfolio and is calculated generally by dividing the lesser of the amount of purchase or sale transactions of securities by the average value of the account during the year. SAM I and OMP advisory accounts pay LPL transaction charges when there are buys and sells of certain securities, and a higher portfolio turnover rate may indicate higher transaction charges. LPL Financial retains transaction charges, and does not share them with its investment adviser representatives.

Further explanation of the portfolio turnover ratio calculation method and the total annual transaction-related fee amount is provided below.

1. Discretionary and non-discretionary transactions are included in the turnover ratio.

2. Debt securities whose maturities at the time of acquisition are one year or less have been included in the calculation. Because these short-term debt security transactions are included, the ratio may be higher than if such securities were not included.

3. Transactions are included in the ratio even if there were no transaction-related fees charged to the client on the transaction.

4. Transactions in variable annuities and the underlying subaccounts that are linked to a SAM I account are not included in the amount of purchases or sales of securities for the purposes of the ratio and the value of the variable annuity linked to the account is also excluded from the ratio. If such transactions and assets were included in the calculation, the ratio would be higher. There are no transaction-related fees charged on variable annuity transactions.

5. Transfers of securities in and out of an account are not treated as transactions for purposes of the calculation, though transaction costs associated with a sale and purchase of transferred securities will be captured. If transfers of securities were included as transactions, the ratio would be higher, and in certain cases, significantly higher.

6. **The portfolio turnover ratio is calculated using annualized industry averages.** The annualized turnover ratio calculation is based on a 30 day per month average and 360 days in the year, consistent with standard financial services industry practice. For this reason, months that have more than 30 days may have a slightly understated turnover ratio, and months that have less than 30 days may have a slightly overstated ratio. If an account is open for less than a year that can make the ratio appear very high, especially if securities were transferred into the account and then reallocated. The turnover ratio should be more normalized when the account is open for an entire year, and the transaction activity is spread over a longer period of time. For this reason, accounts that are open for less than six months prior to the end of the year will not display the portfolio turnover ratio.

7. In calculating the portfolio turnover ratio, the total value of the account is used, including cash and portfolio securities (but excluding variable annuity assets as noted above). If cash was not included in the total value of the account it would cause the ratio to be higher. Cash can be invested in money market funds or held in bank sweep deposit accounts. Buys and sells of money market funds are treated as transactions for purposes of the ratio, while deposits in and withdrawals from sweep deposit accounts are excluded. If the cash sweep transactions were included, it could cause the ratio to be very high depending on the frequency of movement of cash in and out of these products. By excluding these transactions the ratio will be lower, and in certain cases, significantly lower.

8. For purposes of the total annual transaction-related fees shown in the report, transaction-related fees include transaction charges on equities, fixed income, mutual funds, options, unit investment trusts and foreign securities in SAM I; the alternative investment product processing fee in SAM I; and service charges/transaction charges and fees in OMP. Fees related to American Depository Receipts (ADRs) are not included. Please see the Miscellaneous Account and Service Fees Schedule – Advisory at www.lpl.com, under "Fee Schedules," for more information on these fees.

9. Discounts, waivers, adjustments, and refunds of transaction-related fees are reflected in the total annual transaction-related fees shown on the report to the extent these occur during the applicable time period.

10. For purposes of the total annual transaction-related fee amounts and the transactions included in the turnover ratio, only transactions that occurred in the account on or after the account became an advisory account are included.

For more information about this exemption and the calculation of the portfolio turnover ratio, see Prohibited Transaction Class Exemption 86-128.