

# LPL PRODUCT RISK GOVERNANCE POLICY



## LPL'S ROLE IN PRODUCT RISK GOVERNANCE

As the largest independent broker-dealer in the country,\* our role in the investment marketplace is to ensure that our product offerings are meeting the needs of our advisors and their clients. While we do not issue our own investment products, we make sure the products on our platform undergo a robust due diligence process that seeks to detect, evaluate, and mitigate excessive product risk by controlling the entry of products on LPL's platform and to provide ongoing monitoring of approved products to ensure continual risk management.

AT LPL, WE ARE DEDICATED TO SUPPORTING OUR ADVISORS AND THEIR CLIENTS TO ACHIEVE THE STRONGEST RISK-ADJUSTED RETURNS AND HELP THEM MEET THEIR INVESTMENT GOALS. IN SERVICE TO THAT MISSION, WE ARE COMMITTED TO ACTING AS RESPONSIBLE STEWARDS TO THE PRODUCTS AND SERVICES AVAILABLE ON OUR PLATFORM.

## How we manage product risk governance

Product risk governance is overseen by our Board of Directors' Nominating and Governance Committee and CEO, but day-to-day management is conducted by teams reporting to our Chief Investment Officer and Chief Risk Officer:

<b>LPL Research</b>	<ul style="list-style-type: none"><li>▪ Conduct ongoing research on returns, allocations, and competency of product investment managers</li><li>▪ Perform direct engagement with external investment managers</li><li>▪ Select products for LPL's recommended lists and Model Wealth Portfolios</li></ul>
<b>Product Risk Management</b>	<ul style="list-style-type: none"><li>▪ Oversee the introduction of new products and the monitoring of existing products on LPL's platform</li><li>▪ Take a risk-based approach to oversight, performing differing levels of due diligence based on product type and associated risk</li></ul>
<b>Product Review Committees</b>	<ul style="list-style-type: none"><li>▪ Cross functional committees chaired by Product Risk Management that review and approve new and established high-risk product types on the LPL platform</li></ul>

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## Product risk governance processes

INITIAL RESEARCH	When new products are considered for the LPL platform, we perform robust qualitative and quantitative research to obtain an understanding of its historic performance and business/investment practices.
ENGAGEMENT	We perform manager meetings, where we assess investment managers by meeting with their senior management, portfolio managers, analysts, and others to get visibility into specific investment processes or organizational concerns.
ASSESSMENT	After completing manager meetings, new products are presented to Product Risk Management and our Product Review Committee for approval. Unanimous consent from all voting members of our Product Review Committee is required before entering our platform.
MONITORING	Following approval, we perform ongoing monitoring of the products on our platforms, assessing performance, product-specific updates, alignment to stated investment processes, and observance of risk controls.
LPL SOLUTIONS CONSIDERATION	To further guide our advisors, our LPL Research Department provides recommended lists and Model Wealth Portfolio strategies that include investment products they believe are the strongest performers within their categories, and are consistent with investment objectives of managing downside risk, and capturing attractive upside potential.

## Specific product review processes

### Traded products

When evaluating the strength of exchange-traded products, we first select the index best aligned to the exposure we are seeking, and then identify those with low tracking errors. After following the standard process described above, we will also assess for expense ratios, underlying financials, and tax consequences before adding it to one of our solutions.

### Alternatives and annuities

Given the varying forms taken by alternative investment and annuity products, prior to the standard steps described above we perform a market analysis, assessing the current market dynamics and regulatory environment to determine the different product types and investment areas that are likely to succeed, while planning for risk related to fundamental market trends.

### Separately managed accounts and models

In addition to the above process, all separately managed accounts on the LPL platform are subject to third party industry data analytics, supplemented with annual diligence questionnaires, which cover topics such as:

- Legal, compliance, and regulatory issues; investment professionals; and asset levels.

\*As reported by *Financial Planning* magazine, June 1996-2020, based on total revenue.

Investing involves risks including possible loss of principle. No investment strategy or risk management technique can guarantee return or eliminate risk in all market environments.

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