

# Step-Out Trading Disclosure

This document provides information to clients who are participating, or are considering participating, in the Preferred Portfolio Services® (“PPS”) Direct SMA/UMA Program (“Program”) sponsored by Commonwealth Financial Network® (“Commonwealth”).

## Best Execution Obligation

Money managers (“Managers”) within the Program may select the broker/dealers that execute trade orders for client accounts. As an investment adviser, a Manager has an obligation to seek “best execution” for client trade orders. The Manager must place client trade orders with those broker/dealers that the Manager believes are capable of providing the best qualitative service, taking into account the full range and quality of the services offered by the broker/dealer, including, but not limited to, the broker/dealer’s execution capabilities, the broker/dealer’s financial stability, and the broker/dealer’s responsiveness to the Manager. A Manager’s best execution obligation does not require the lowest available cost to be obtained for trade orders. Clients should understand that Commonwealth does not evaluate whether a Manager is meeting its best execution obligations 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. The responsibility to determine whether to trade away arises out of a Manager’s individual fiduciary duty to clients and its trading expertise.

## Step-Out Trades

Managers may place client trade orders with a broker/dealer other than Commonwealth if they determine they must do so to comply with their best execution obligations. This practice is frequently referred to as “step-out trading.”

Step-out trades may be executed without additional cost, but, in certain instances, the executing firm may impose a commission, markup, markdown, or other charges for executing the transaction. If a Manager engages in a step-out trade and the executing broker/dealer assesses a commission or equivalent fee on the trade, the client will incur trading costs that are in addition to the annual and Program fees paid by the client to participate in the Program. In such cases, the net purchase or sale price reflected to the client will include the additional cost of the brokerage commissions or dealer markups/markdowns charged by the executing broker. Managers may reasonably believe that they are able to achieve better trading results by trading away.

Step-out trading practices differ from Manager to Manager. Some Managers do not engage in step-out trading, while others step out all transactions at no additional cost or for various additional costs. Managers who engage in step-out trades may be more costly to a client than Managers who do not engage in step-out trades. Clients should review the Manager’s Form ADV Part 2A Brochure, inquire about the Manager’s trading practices and associated trading costs, and consider this information carefully before selecting a Manager.

**Please note:** This information reflects historical data and may not be indicative of the current frequency with which Managers trade away or the related costs of such trades. A Manager’s past practice is not a guarantee that the Manager will follow the same practice in the future.

Included is a list of Managers who have informed Commonwealth that they engage in step-out trading; it provides information on the additional costs to clients for those trades. Clients should review these step-out trading practices and their affiliated costs (if any) with their advisors. Clients may also wish to contact their advisor to determine if other Managers on the platform provide a similar strategy at a lower cost. The information listed below does not reflect step-out trading practices in which Managers may engage when positions transfer in-kind to a new account within the Manager’s program. In such cases, depending on the holdings, Managers may engage in step-out trading for the purpose of selling existing positions and reinvesting the proceeds into the trading strategy selected by the client.



**Please note:** This information was provided to Commonwealth by the respective Managers, but it has not been independently verified by Commonwealth. All data is for calendar year 2023.

Manager	Strategy	Step-Out Percentage <sup>1</sup>	Additional Cost <sup>2</sup>
Eagle Asset Management, Inc.	Eagle Municipal Managed Income Solutions Managed Account, Eagle Strategic Income Portfolio (Taxable) Managed Account, Eagle Vertical Income Portfolio Managed Account	100%	Fees vary <sup>3</sup>
GW&K	Core Bond Managed Account, Enhanced Core Taxable Managed Account, Intermediate Municipal Managed Account, Short-Term Taxable Managed Account, Total Return Taxable Managed Account	100%	Fees vary <sup>4</sup>
Nuveen	Intermediate Muni Fixed Income Managed Account	100%	1–10 bps <sup>5</sup>
Nuveen	Intermediate Muni Fixed Income Managed Account UMA	100%	1–10 bps <sup>5</sup>
Pacific Income	Limited Duration MACS Managed Account	88.5%	Fees vary <sup>6</sup>
Pacific Income	Limited Duration MACS Managed Account UMA	85.4%	Fees vary <sup>6</sup>
Pacific Income	Market Duration MACS Managed Account	97.6%	Fees vary <sup>6</sup>
Pacific Income	Market Duration MACS Managed Account UMA	91.8%	Fees vary <sup>6</sup>

<sup>1</sup> Step-out percentage refers to the most recent data provided by the Manager regarding the percentage of trades stepped out by the Manager.

<sup>2</sup> Additional cost represents the average additional cost that clients pay for the Manager's step-out trades. Additional costs are expressed in actual cost per trade, basis points (bps), or cents per share (cps). The following hypothetical examples are provided for illustrative purposes only. Actual costs may be higher or lower than those illustrated.

- If a Manager executes a step-out trade on a \$10,000 transaction with an average additional cost of 0.1 bps, the client would see an additional cost of \$0.10 for the transaction.
- If a Manager executes a step-out trade on a transaction of 1,000 shares with an average additional cost of \$0.05 cps, the client would see an additional cost of \$50 for the transaction.

<sup>3</sup> The following disclosure of additional costs has been provided by Eagle Asset Management, Inc.:

"For fixed income step-out trades, clients receive institutional execution where there is an institutional bond spread but no additional cost, except for certain types of trades done on electronic trading platforms (e.g., MarketAxess, Tradeweb, Liquidnet, Trumid, and The Muni Center). Each platform has its own range of fees:

- **MarketAxess Open Trading:** The fee is from 0-1.50 bps to counterparty depending on size and maturity.
- **Tradeweb Corporate Trading:** The fee is 0.60 bp to liquidity provider.
- **Tradeweb Direct:** Liquidity provider pays a fee, based on a pricing grid, depending on maturity and size, \$0.10–\$3 per bond.
- **Liquidnet:** Fee is 1 bp all in.
- **Trumid:** Anonymous trades, 18 months–5 years = 1 bp, 6–20 years = 0.8 bp, 21 years+ = 0.60 bp all in; New Issue/Grey Market, 0.40 bp.
- **TMC (The Muni Center):** For munis, the seller pays a fee depending on maturity and size ranging from a minimum of \$0.10 to a maximum of \$10 per bond. For Corporates and Agencies a fee of \$0.50-\$1 per bond is charged to liquidity provider."

<sup>4</sup> The following disclosure of additional costs has been provided by GW&K:

"For municipal bond strategies, under normal market conditions: While the diversity of municipal markets and the sheer number of issuers makes it difficult to give general perspective on potential markup and markdown assessed by our trading



partners, we believe those impacts to be typically between 0 and 1/2-point (dollar) markup or markdown trade by trade, with a weighted average of approximately 1/8-point (dollar).

**“For taxable bond strategies, under normal market conditions:**

- Investment-grade corporate bonds are typically quoted within a 10-basis-point bid/ask spread but generally trade within a 5-basis-point markup/down if riskless.
- High-yield bonds are typically quoted within a one-point bid/ask spread but generally trade within 1/4 point, or approximately a 5–10-basis-point markup/down, if riskless.
- MBS bonds are typically quoted with a 1/8-point bid/ask spread but generally trade within 1/16 point, or approximately a 5-basis-point markup/down if riskless.
- Treasury bonds typically trade within a 1/16-point markup/down.

Taxable municipal bonds are comparable to investment-grade credit spreads.”

<sup>5</sup> The following disclosure of additional costs has been provided by Nuveen:

“Where Nuveen Asset Management trades away, clients generally incur implicit transaction costs and fees in addition to the wrap fee. These fees are generally in the form of mark-ups and mark-downs, or spreads, earned by the relevant securities dealer (not Nuveen Asset Management or a Nuveen affiliate), in addition to the wrap fee payable to the wrap program sponsor.

“For secondary market trades, dealer trading mark-ups can range from just a few cents to several dollars per bond depending on several factors, including position size, market strength or weakness, and holding period, among others. For primary market (new issue) trades, there are no additional trading costs.”

<sup>6</sup> The following disclosure of additional costs has been provided by Pacific Income:

“Step-out trades executed over the phone do not have commissions charged. Step-out trades executed via electronic trading systems have a nominal trading fee (i.e., MarketAxess 1/10 to 2/10 basis points). These nominal fees are factored in prior to obtaining the best execution price for the client.”