



# **Westminster Financial Companies Regulation Best Interest Disclosure Document**

Effective June 30, 2020

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Westminster Financial Companies (“we,” “our,” “us,” or “our firm”) provides this disclosure document (this “Reg BI Disclosure Document”) to you to ensure that you are informed about the services our firm offers and your relationship with our firm. Among other things, this Reg BI Disclosure Document provides you with: (1) material facts relating to the scope and terms of our relationship with you, including the capacity in which we and our financial professionals are acting, the type and scope of our services, material limitations on our services, and the material fees and costs that apply to your accounts, transactions, and holdings, and (2) material facts relating to conflicts of interest that exist for us and our financial professionals in connection with the recommendations we make to you.

You are encouraged to review this Reg BI Disclosure Document in detail and contact your financial professional with any questions you may have. If you would like another copy of this Reg BI Disclosure Document, please feel free to access and download it from our website at [www.westminsterfinancial.com](http://www.westminsterfinancial.com). You also may request another copy of this Reg BI Disclosure Document from your financial professional or by contacting us at 937-898-5010.

## **1. Scope and Terms of Our Relationship with You**

Westminster Financial Securities, Inc. is a Financial Industry Regulatory Authority (FINRA) member broker-dealer and Westminster Financial Advisory Corp. is an investment adviser registered with the Securities and Exchange Commission (the SEC). Depending on your needs and investment objectives, we may assist you with broker-dealer services, investment advisory services, or both. There are important differences between our broker-dealer services and our investment advisory services, including, but not limited to, the services we and our financial professionals provide, the fees and costs you will incur, and the rules that govern them, and it is important for you to understand these differences. You should carefully consider these differences when deciding which types of services and accounts, or combination of types are right for you. You should discuss these differences and address any questions you may have with your financial professional.

Information regarding the differences between our broker-dealer services and our investment advisory services is available in our Form CRS, which is available at [www.westminsterfinancial.com](http://www.westminsterfinancial.com). You also may request a copy of our Form CRS from your financial professional or by contacting us at 937-898-5010. Additionally, tools are available for you to research our firm and financial professionals, at [Investor.gov/CRS](http://Investor.gov/CRS), which also provides educational materials about broker-dealers, investment advisers, and investing.

### **1.1. Our Capacity**

#### **Broker-Dealer Capacity**

All recommendations made by your financial professional regarding your broker-dealer accounts will be made in a broker-dealer capacity. If you have multiple account types with us (i.e., both a broker-dealer account and an investment advisory account), your financial professional will tell you which of your accounts he or she is discussing when making recommendations to you. Additionally, before or at the time your financial professional makes a recommendation to you, your financial professional will communicate or disclose if he or she is limited to making recommendations to you in a broker-dealer capacity only. For instance, even though our firm offers both broker-dealer and investment advisory accounts and services, some of our financial professionals are able to offer only broker-dealer accounts and services. If this situation is applicable to your financial professional, your financial professional will not be able to offer you investment advisory accounts or services or serve you in an investment advisory capacity. You should discuss this material limitation and address any questions you may have with your financial professional. For additional information regarding material limitations on our firm and our financial professionals’ services, please see Section 1.2.1 below.

In our capacity as a broker-dealer, we can offer you the broker-dealer services described in Section 1.2 below. When we act in our capacity as a broker-dealer, we are subject to the Securities Act of 1933 (the “Securities Act”), the Securities Exchange Act of 1934 (the “Exchange Act”), the rules of self-regulatory organizations, such as the Financial Industry Regulatory Authority, Inc. (“FINRA”), and applicable state laws. When we provide you with recommendations as your broker-dealer, we are required to act in your best interest and not put our interests ahead of yours.

Before or at the time you enter into a broker-dealer relationship with us, you will receive our Form CRS, which provides information about the broker-dealer and investment advisory services we offer, fees and costs, specified conflicts of interest, and disciplinary history. Our Form CRS is available at [www.westminsterfinancial.com](http://www.westminsterfinancial.com). You also may request a copy of our Form CRS from your financial professional or by contacting us at 937-898-5010.

## **Investment Adviser Capacity**

All recommendations made by your financial professional regarding your accounts established for our investment advisory program will be made in an investment advisory capacity. As a SEC-registered investment adviser, we can provide investment advice to you for a fee. We can also place orders for you as an investment adviser through a brokerage account with our broker-dealer.

When we act in our capacity as an investment adviser, we will do so pursuant to a written agreement with you that sets the terms and conditions of our investment advisory relationship with you, including our obligations to you, your obligations to us and the fees charged for the advisory services. When we act as your investment adviser, we have a fiduciary duty to you under the Investment Advisers Act of 1940 (the "Advisers Act"), which includes a duty of care and a duty of loyalty and requires us to act in your best interest and not put our interests ahead of yours.

Before or at the time you enter into an investment advisory relationship with us, you will receive our Form CRS, which provides information about the broker-dealer and investment advisory services we offer, fees and costs, specified conflicts of interest, and disciplinary history, as well as our applicable Form ADV, Part 2A disclosure brochure, which provides detailed information regarding our investment advisory programs and services, fees and costs, conflicts of interest, and other important matters. In addition, before or at the time your financial professional begins to provide you with advisory services, your financial professional will provide you with his or her Form ADV, Part 2B brochure supplement, which details your financial professional's educational background, business experience, disciplinary history, and other business activities. Our Form CRS and Form ADV, Part 2A disclosure brochures are available at [www.westminsterfinancial.com](http://www.westminsterfinancial.com) under Disclosures and on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You also may request a copy of our Form CRS or any Form ADV, Part 2A disclosure brochure from your financial professional or by contracting us at 937-898-5010.

### **1.2. Type and Scope of Our Services**

#### **Broker-Dealer Services**

In our capacity as a broker-dealer, we and our financial professionals can recommend and execute securities transactions for you with your consent, including buying and selling stocks, bonds, options, mutual funds, closed-end funds, exchange-traded funds ("ETFs"), unit investment trusts ("UITs"), variable annuities, variable life insurance policies, and other securities that can be held in your broker-dealer accounts. Your broker-dealer accounts may include any of the options or account types described under the heading "Account Types" below.

We provide a number of services related to your investments in securities, including, but not limited to, taking your transaction orders, executing your securities transactions, providing general investment information, and providing administrative and other services relating to your broker-dealer accounts and investments. Our financial professionals also provide recommendations concerning whether to buy, sell, or hold securities. Our services also entail recommendations of investment strategies involving securities, including recommendations of account types and rollovers or transfers of assets, such as rolling over workplace retirement plan assets into an individual retirement account ("IRA").

In addition, we offer the option to automatically invest cash held in accounts custodied by National Financial Services LLC ("NFS"), our custodian and clearing firm, in money market funds or taxable interest bearing cash options designated as cash sweep vehicles. We also offer margin account services, where NFS, our custodian and clearing firm, extends you credit (a loan) for the purpose of purchasing, carrying, or trading in securities.

We do not have any minimum requirements, such as minimum investment amounts, for you to access our broker-dealer accounts or services, but some of the investments we make available to you have minimum investment requirements set by the issuers of those investments. Additional information regarding minimum investment requirements for particular investments is available in each investment's prospectus or other offering document. You can request a copy of a particular investment's prospectus or other offering document from your financial professional at any time, and prospectuses will be delivered to you in connection with your purchases of investments as and when required by law.

#### **Account Types**

In order to receive any of our broker-dealer services described above, you must first open a broker-dealer account. We offer access to a variety of broker-dealer account types with different features and benefits that are intended to address the different needs and objectives of our retail customers. When opening a broker-dealer account, you may choose from various different options or account types, including brokerage accounts held with NFS, our custodian and clearing firm; accounts held directly with issuers of the securities you purchase; education accounts (e.g., education savings plans);

retirement accounts, where your investments will be held with the custodian of the retirement account; and certain specialty accounts (e.g., margin accounts).

Specific information regarding available broker-dealer account options, including their key features and benefits, is contained in the Account Agreements used to establish a client account. Before deciding whether to open any account with us, you will want to discuss your account options with your financial professional to decide which account type best fits your financial goals and circumstances.

## **Our Investment Philosophy**

We believe long-term investment plans and investments work best toward fostering long term financial success and long-term relationships with our clients. Being independent, we offer an exceptionally diverse assortment of investment selections, products, and styles. In having few limitations and a large variety of investment choices we are able to assist you with turnkey solutions that are personalized for your specific financial needs and goals.

Our financial professionals select and recommend individual securities and investment vehicles based on their performance, risk, style, and cost, among many other criteria and characteristics. In doing so, we are able to provide recommendations and suggestions on specific investments and if requested, can personalize a broader portfolio and or financial plan that is in line with the risk parameters and objectives you provide.

We strive to ensure that recommendations and suggestions made to you are made with sound rationale and that they are suitable for your needs and in your best interest. To do so, we make consideration of reasonable investment alternatives to our recommendations and look into costs associated with our recommendations and the potential risks and returns they may offer. We consider your specific investment and risk profile in doing the above and also ensure that we are placing your interests ahead of ours and our investment professionals when we make such recommendations.

When looking at your investment profile and considering what may or may not be in your best interest, we factor in your age, financial status, tax status, investment experience and objectives, time horizon/time until anticipated retirement, liquidity needs, and tolerance for volatility among much other information you may disclose to us ahead of our making recommendations to you.

Our financial professionals may have specific investment philosophies unique to themselves that differ from our general philosophies. If such is the case with your investment professional they will make this known to you before, or at the time that, they make or share any suggestions or recommendations with you. You should discuss and ask questions of our investment philosophy and your professional's unique philosophies and strategies with them such that you have time to address queries and have clarification before committing to any securities recommendations.

### **1.2.1. Material Limitations on Our Services**

Given the wide range of our broker-dealer services and the investments we make available, we do not have many material limitations on the type and scope of our services. For instance, we do not limit our investment offerings to specific asset classes, a select group of issuers, or specific investment types. Additionally, we do not have any minimum requirements, such as minimum investment amounts to access our broker-dealer accounts or services, though some of the investments we make available to you have minimum investment requirements set by the issuers of those investments.

Notwithstanding the wide range of broker-dealer services and investments we make available, there are certain material limitations on our firm's and our financial professionals' services and the investments we make available, and these material limitations are described below.

- **Financial Professional Limitations:** Not all of our financial professionals can offer the full range of investments and services our firm offers.
  - **Non-Advisory Financial Professionals:** Even though our firm offers both broker-dealer and investment advisory services, some of our financial professionals are licensed to recommend and offer broker-dealer services only, whereas some of our other financial professionals are licensed to recommend and offer both broker-dealer and investment advisory services. If your financial professional is licensed to recommend and offer broker-dealer services only, he or she will not be able to recommend, offer, or provide you with any of the investment advisory services our firm offers.
  - **Financial Professionals with Limited Securities Licenses:** Even though our firm offers access to a wide range

of investments, some of our financial professionals hold securities licenses that permit them to recommend, offer, and sell only certain types of investments, such as mutual funds, variable annuities, or certain other specific investments. As a result, these financial professionals are unable to recommend, offer, and sell the full range of investments our firm makes available. If your financial professional holds securities licenses that permit him or her to recommend, offer, and sell only certain types of investments, he or she will not be able to recommend, offer, or sell you any investments not covered by his or her securities licenses, even if our firm offers access to those investments.

- Financial Professionals Without Insurance Licenses or With Limited Insurance Company Appointments: Even though our firm offers access to a wide range of variable annuities and variable life insurance policies (together, “variable products”), some of our financial professionals do not hold the insurance licenses required to recommend, offer, and sell variable products. If your financial professional does not hold the insurance licenses required to recommend, offer, and sell variable products, he or she will not be able to recommend, offer, or sell you any variable products, even though our firm offers access to a wide range of variable products. Additionally, some of our financial professionals who do hold the insurance licenses required to recommend, offer, and sell variable products have not been authorized or “appointed” by certain insurance companies to sell those insurance companies’ variable products. If your financial professional has not been authorized or “appointed” by an insurance company to sell that insurance company’s variable products, your financial professional will not be able to recommend, offer, or sell you any variable products offered by that insurance company, even if our firm offers access to that insurance company’s variable products.

Each of the above circumstances are material limitations on the securities or investment strategies that your financial professional may recommend to you. If your financial professional is subject to any of these material limitations, he or she will communicate or disclose such limitations to you before or at the time of making a recommendation to you that is subject to, based upon, or a result of such limitation, and you should discuss these material limitations and address any questions you may have with your financial professional. In addition, you are encouraged to research your financial professional’s experience and securities licenses on FINRA’s BrokerCheck website at <https://brokercheck.finra.org/>.

- **Investment Limitations**: While we offer access to a wide range of investments, including stocks, bonds, options, mutual funds, closed-end funds, ETFs, UITs, variable products, and other investment products, there are certain investments we do not offer. For instance, we do not offer all mutual funds from every single mutual fund company, all types of options, every type of ETF, every type of variable product, every education savings plan, or every security in any other category of securities. This means that our financial professionals are limited to recommending only those investments that we are authorized to offer and that are available through our platform. This is a material limitation on the securities or investment strategies that we and our financial professionals may recommend to you.
- **Account Monitoring**: While our financial professionals are available to assist you with your broker-dealer account and investments, our financial professionals do not monitor your broker-dealer account, the investments in your broker-dealer account (including those investments our financial professionals recommend for you), or their performance. This is a material limitation on our services and the services of our financial professionals. Ultimately it is your responsibility to monitor your account.

### **1.3. Fees and Costs**

This section provides information about the material fees and costs that apply to your account, transactions, and holdings. Because our fees vary depending on the specific transactions we facilitate for you and the specific services we provide to you, the information below first describes the fees and costs associated with your broker-dealer account, and then the fees and costs associated with transactions and holdings of your broker-dealer account.

#### **1.3.1. Fees and Costs Associated with Your Account**

Depending on the type of broker-dealer account you open, you will pay certain fees and costs associated with your account. Unlike the fees related to your transactions and holdings described below, you will pay many of the fees associated with your broker-dealer account annually, although you will pay certain account-related fees on a more frequent recurring basis (e.g., monthly) or each time you take certain actions or give us certain instructions with respect to your account. For additional information about fees and costs, please see our current Fee Schedule at [www.westminsterfinancial.com](http://www.westminsterfinancial.com). You should discuss the specific fees and costs of your account with your financial professional.

Described below are the material fees and costs associated with our broker-dealer accounts:

- **Select Access Cash Management Account Fee:** If you have a Select Access Cash Management Account with us that is custodied by NFS, we generally charge you an annual account fee for the cash management and other features available with a Select Access Cash Management Account, including, but not limited to, check writing and debit card access. This fee is typically \$10 to \$25, and you will pay this fee annually.
- **Premier Access Cash Management Account Fee:** If you have a Premier Access Cash Management Account with us that is custodied by NFS, we generally charge you an annual account fee for the cash management and other features available with a Premier Access Cash Management Account, including, but not limited to, check writing and rewards debit card access. This fee is typically \$100, and you will pay this fee annually.
- **Inactive Account Fee:** If you have a broker-dealer account with us that is custodied by NFS, we generally charge you an annual inactive account fee to compensate us for services we provide, and reimburse us for expenses we incur, in connection with maintaining your inactive account. This fee is typically \$35 and you will pay this fee annually when there is no qualifying activity (e.g., securities transactions) in your account during the twelve-month period ending with the fee assessment date, which typically occurs in January of each year.
- **Non-Retirement Account Transfer Fee:** If you have a non-retirement account with us that is custodied by NFS, we generally charge you a one-time account transfer fee to compensate us for services we provide, and reimburse us for expenses we incur, in connection with transferring all assets in your account to another firm. This fee is typically \$100, and you will pay this fee when you transfer all assets in your account to another firm.
- **Retirement Account Maintenance Fee:** If you have a retirement account with us that is custodied by NFS, we generally charge you an annual account maintenance fee to compensate us for services we provide, and reimburse us for expenses we incur, in connection with maintaining your retirement account. This fee is typically \$50 and you will pay this fee annually.
- **Retirement Account Termination Fee:** If you have a retirement account with us that is custodied by NFS, we generally charge you a one-time account termination fee to compensate us for services we provide, and reimburse us for expenses we incur, in connection with terminating your account or transferring all assets in your account to another firm. This fee is typically \$125, and you will pay this fee when you terminate your account with us or transfer all assets in your account to another firm. You will also pay the annual retirement account maintenance fee discussed above when you terminate your account with us or transfer all assets in your account to another firm if you have not previously paid that fee for the year in which the termination or transfer occurs.
- **Margin Loan Interest:** If you have a margin account with us that is custodied by NFS, where NFS extends credit (a loan) to you for the purpose of purchasing, carrying, or trading in securities, we generally charge you interest on the outstanding balance of all credit extended to you by NFS. A portion of these interest charges compensates NFS for the cost and risk of lending money to you. We retain a portion of these interest charges to compensate us for the risk of lending money to you, services we provide, and reimburse us for expenses we incur, in connection with your margin account. Annual margin interest rates typically range from 0% to 3.00% above the National Financial Base Lending Rate (the "NFBLR") depending on your average margin debit balance. The NFBLR is set at NFS' discretion with reference to commercially recognized interest rates, industry conditions regarding the extension of credit, and general credit conditions. The margin interest rate you will pay will change without notice to you as the NFBLR and your average margin debit balance change. You will pay margin interest monthly. For detailed information on margin trading, including interest rates, interest calculation methodologies, and other important matters, please review your Margin Account Application and Agreement, which you received or will receive in connection with your application for margin trading privileges. Additional information regarding margin trading, including NFS' current NFBLR and margin balance fees, can be found at [www.westminsterfinancial.com](http://www.westminsterfinancial.com).
- **Alternative Investment Custody and Valuation Fee:** If you hold alternative investments in an account with us that is custodied by NFS, we generally charge you an annual alternative investment custody and valuation fee for each alternative investment position in your account. This fee compensates us for services we provide, and reimburses us for expenses we incur, in connection with having such alternative investments custodied and valued. This fee is typically \$75 per alternative investment position in your account and you will pay this fee annually. This fee is typically subject to a maximum of \$225 per account per year.
- **Cash Debit Balance Interest:** If you have a cash debit balance in an account with us that is custodied by NFS, we generally charge you interest on your cash debit balance at the annual rate of 3.00% above the NFBLR. The NFBLR is set at NFS' discretion with reference to commercially recognized interest rates, industry conditions regarding the extension of credit, and general credit conditions. The interest rate you will pay will change without notice to you as the NFBLR changes. You will pay interest on cash debit balances monthly. The current NFBLR

can be found at [www.westminsterfinancial.com](http://www.westminsterfinancial.com).

- **Direct Registration Fee:** If you choose to be directly registered as the owner of a security in an account with us that is custodied by NFS, rather than having such security held in “street name,” we generally charge you a one-time fee to compensate us for services we provide, and reimburse us for expenses we incur, in connection with facilitating such direct registration. This fee is typically \$5 for securities that are eligible for the Direct Registration System (“DRS”) and \$650 for securities that are not eligible for DRS. You will incur this fee each time you request that a security in your account be directly registered in your name.
- **Physical Security Safekeeping Fee:** If you hold physical securities certificates in an account with us that is custodied by NFS, we generally charge you a monthly physical security safekeeping fee to compensate us for services we provide, and reimburse us for expenses we incur, in connection with having such physical securities certificates held. This fee is typically \$15 per certificate and you will pay this fee monthly when you hold physical securities certificates in your account.
- **Legal Transfer of Stock Certificate Fee:** If a physical stock certificate sent for deposit into an account with us that is custodied by NFS does not match the account registration, or contains other errors that must be reviewed before the deposit can proceed, we generally charge you a one-time fee to compensate us for services we provide, and reimburse us for expenses we incur, in connection with facilitating the legal transfer or correction of such physical stock certificate. This fee is typically \$200, and you will pay this fee each time a review for legal transfer or correction purposes is required.
- **Legal Return of Stock Certificate Fee:** If a physical stock certificate sent for deposit into an account with us that is custodied by NFS cannot be accepted for legal reasons discussed above, the physical stock certificate will be returned and we will generally charge you a one-time fee to compensate us for services we provide, and reimburse us for expenses we incur, in connection with the return process. This fee is typically \$100, and you will pay this fee each time a physical stock certificate cannot be accepted and must be returned.
- **Physical Reorganization Fee:** If a physical stock certificate sent for deposit into an account with us that is custodied by NFS cannot be accepted due to a merger involving the issuer, a change in issuer name, or a similar circumstance, we generally charge you a one-time fee to compensate us for services we provide, and reimburse us for expenses we incur, in connection with facilitating the processing necessary to accommodate the issuer’s reorganization. This fee is typically \$200, and you will pay this fee each time a physical stock certificate must be processed to accommodate an issuer’s reorganization.
- **Wire Transfer Fee:** If you request a wire transfer of funds from an account with us that is custodied by NFS, we generally charge you a one-time wire transfer fee to compensate us for services we provide, and reimburse us for expenses we incur, in connection with facilitating your wire transfer request. This fee is typically \$15 for qualified accounts and \$20 for non-qualified accounts, and you will pay this fee each time you request a wire transfer from your account.
- **Overnight Check Fee:** If you request a check from an account with us that is custodied by NFS on an overnight basis, we generally charge you a one-time overnight check fee to compensate us for services we provide, and reimburse us for expenses we incur, in connection with facilitating your overnight check request. This fee typically \$24 and you will pay this fee each time you submit an overnight check request.
- **Returned Check Fee:** If you have an account with us that is custodied by NFS and that provides a check writing feature, we generally charge you a one-time returned check fee when there are insufficient funds in your account to cover the amount of a check written from your account. This fee is typically \$20, and you will pay this fee each time there are insufficient funds in your account to cover the amount of a check written from your account.
- **Stop Payment Fee:** If you have an account with us that is custodied by NFS and that provides a check writing feature, we generally charge you a one-time stop payment fee when you request that we arrange for payment to be stopped on a check written from your account. This fee is typically \$25, and you will pay this fee each time that you request that we stop payment on a check written from your account.
- **990-T Tax Return Filing Fee:** If you have a retirement account with us that is custodied by NFS and that holds a master limited partnership or limited partnership that generates unrelated business taxable income (UBTI) of \$1,000 or more, we generally charge you a one-time fee for costs associated with Form 990-T Exempt Organization Business Income Tax Return filing. This fee is typically \$300, and you will pay this fee each time Form 990-T is filed for your account; however, you will be notified prior to this fee being debited from your



account.

### 1.3.2. Fees and Costs Associated with Your Transactions and Holdings

We and our financial professionals are paid each time you trade in your broker-dealer account or make a new investment. This type of payment is typically called a “commission,” but may also be called a “sales charge,” “sales load,” or “markup.” This type of payment presents a conflict of interest for us and our financial professionals because it creates an incentive for us and our financial professionals to recommend that you trade often and make additional investments. Commission rates and amounts vary depending upon the investment category, specific investment, share class, and size or amount of your transaction. These varying commission rates and amounts also present a conflict of interest for us and our financial professionals because they create an incentive for us and our financial professionals to recommend that you purchase investment categories, specific investments, and share classes that pay us the highest rate of compensation and increase the size or amount of your transactions. For additional information about commission rates, please see our current Fee Schedule available at [www.westminsterfinancial.com](http://www.westminsterfinancial.com).

In addition, investments that are interests in investment funds, such as mutual funds, closed-end funds, ETFs, and UITs, or investment products, such as education savings plans and variable products, bear ongoing fees and expenses that are embedded into the cost of the investment. You pay these ongoing fees and expenses indirectly because they are factored into the cost of the investment. More information about ongoing fees and expenses associated with investment funds and products is available in the investment fund’s or product’s prospectus or other offering document. You can request a copy of a particular investment’s prospectus or other offering document from your financial professional at any time, and prospectuses will be delivered to you in connection with your purchases of investments as and when required by law.

Because fees and costs vary among investments, we have provided the following overview of fee and cost information for the transactions typically conducted and investments typically held by retail customers. While the following overview is intended to provide you the fees and costs that you will pay in connection with our transactions and holdings, the specific fees and costs you will pay in connection with your particular transactions and holdings will vary as a result of the unique circumstances surrounding your particular transactions and holdings. To determine the specific fees and costs you will pay in connection with your particular transactions and holdings, you should refer to our current Fee Schedule, and the current prospectus or other offering document for the particular security involved in your transaction, and you should discuss specific fees and costs with your financial professional.

#### Equities

##### *Characteristics*

We offer you access to a wide range of equity securities, like stocks, which give holders a share of ownership in a company. Equity securities are often one part of an investor’s holdings. Before deciding to buy or sell an equity security, such as a publicly traded company’s stock, it is important for you to evaluate the risks associated with the company and its equity securities. As part of this evaluation, you should carefully review the company’s public disclosure documents, including, but not limited to, its registration statement and prospectus in the case of an initial public offering or follow-on offering, or its periodic and current reports under the Exchange Act (e.g., Forms 10-K, 10-Q, and 8-K and related financial statements) in the case of a secondary market transaction. Stocks in public companies are registered with the SEC and public companies generally are required to file reports with the SEC annually, quarterly, and as material events occur with respect to their businesses. You may access public companies’ disclosure documents and reports by searching for the company’s name in the SEC’s Electronic Data Gathering, Analysis, and Retrieval (EDGAR) database, which can be accessed on the SEC’s website at [www.sec.gov](http://www.sec.gov).

##### *Fees and Costs*

Buying and selling equity securities, like stocks, entails fees. You will typically pay us a commission every time you buy or sell an equity security. You will pay this commission in addition to the price you pay for the equity securities you choose to buy, and your payment of this commission will reduce the price you receive for the equity securities you choose to sell. This commission is a one-time fee that varies based upon the dollar amount of your transaction and the number of shares you trade. The total commission charge you will pay equals: a base commission dollar amount, which typically ranges from \$0 to \$254.50 and generally increases with the dollar amount of your transaction; plus a percentage of the dollar amount of your transaction, which typically ranges from 1.45% to 0.8% and generally decreases with the dollar amount of your transaction. The total equity commission you will pay is typically subject to a minimum charge of \$35 per transaction.

In addition to the applicable commission on your equity transaction, we typically charge you a trade settlement service fee

which ranges from \$0 to \$29.99 every time you buy or sell an equity security in an account with us that is custodied by NFS.  
*More Information*

You may obtain additional information about equity securities by visiting the SEC's website at [Investor.gov](http://Investor.gov).

## Bonds

### *Characteristics*

We offer you access to a wide range of bonds, such as corporate bonds, government bonds, and municipal bonds. Bonds are debt securities issued by corporations, governments, or other entities that pay fixed or variable interest rates to investors for a specific period of time. When a bond reaches maturity, the bond issuer generally returns the principal amount of the bond to investors. There are many types of bonds and the features, characteristics, and risks associated with bonds can vary significantly.

For most bonds, the bond's coupon rate is the rate of interest it pays annually and is expressed as a percentage of its face value. Usually, the coupon rate is calculated by dividing the sum of coupon payments by the face value of the bond.

Bonds generally are priced at an initial face value (sometimes called "par" value) of \$1,000 per bond. However, once the bond is traded on the secondary market, the bond's price may be lower than its face value, which is referred to as a "discount," or higher than its face value, which is referred to as a "premium." If a bond is priced at a discount, the investor purchasing the bond will receive a higher interest yield (return) than the coupon rate as a result of paying less than the bond's face value. On the other hand, if the bond is priced at a premium, the investor purchasing the bond will receive a lower interest yield (return) than the coupon rate as a result of paying more than the bond's face value. Bond prices typically have an inverse relationship with bond interest yields (e.g., as bond prices decrease, interest yields increase; as bond prices increase, interest yields decrease).

Unlike equities, where prices are usually evaluated based upon their daily closing prices, many bonds do not have a uniform closing price because they are traded in the over-the-counter ("OTC") markets or other negotiated markets. Bond prices are affected by many different factors, including, but not limited to, supply and demand for the bond, the issuer's credit rating, bond size, interest rates, and age-to-maturity. With regard to the age-to-maturity pricing factor, bonds are paid in full (at face value) when they mature, though there are options to call, or redeem, some bonds before they mature (and some bonds permit the issuer to call the bond prior to maturity). Since a bondholder is closer to receiving the full-face value of a bond as the bond's maturity date approaches, the bond's price moves toward par as the bond ages. Many bonds are priced by discounting the expected cash flow to the present using a discount rate.

### *Fees and Costs*

Buying and selling bonds entails fees. You will typically pay a "markup" as a transaction cost to the selling broker-dealer when you buy a bond, as most bonds are traded on a principal (dealer) basis in the OTC market (although some bonds may be bought on an agency (commission) basis). With most bonds, instead of charging you a commission to perform the transaction for you, the broker-dealer selling you the bond marks up the price of the bond above the bond's current value.

When you buy bonds through a broker-dealer on the secondary market, the bonds will have price markups. The markup represents the difference between the price a broker-dealer pays for a bond and the price at which it is sold to you by the broker-dealer.

If you sell a bond before it matures, you may receive more or less than the par value of the bond. Either way, the purchasing broker-dealer will mark down the price of your bond, paying you slightly less than its current value (and will then slightly mark up the price slightly upon resale to another investor). This is how broker-dealers are compensated for maintaining an active secondary market.

When you purchase or sell a bond through us, we generally will carry out your trade on a principal basis. When we sell you a bond as principal, the purchase price you pay for the bond will reflect a markup, a portion of which will be set by the broker-dealer from whom we purchased the bond and a portion of which will be set by your financial professional. When we purchase a bond from you as principal, the price you receive for the bond will reflect a markdown, a portion of which will be set by your financial professional and a portion of which will be set by the broker-dealer to whom we have arranged to resell the bond. The other broker-dealer with whom we deal in connection with your bond transactions shares a portion of its markup and markdown compensation with us. Markups and markdowns set by your financial professional are shared between us and your financial professional.

The markups and markdowns imposed by your financial professional are fixed dollar amounts per bond that increase with a bond's term to maturity and typically range from \$1.25 per bond, for bonds with terms to maturity of less than one year, to \$20 per bond, for bonds with terms to maturity of over 20 years; however, the amount of the total markup or markdown you will incur on a bond transaction will depend on the particular circumstances of each transaction, including, but not limited to, the type of bond (e.g., corporate, government, municipal, agency, etc.) and its maturity.

In addition to the applicable markup or markdown on your bond transaction, we typically charge you a trade settlement service fee which ranges from \$0 to \$29.99 every time you buy or sell a bond in an account with us that is custodied by NFS.

#### *More Information*

Information about bonds, including pricing and issuer credit ratings, is available on FINRA's Market Data Center website at <http://finra-markets.morningstar.com/BondCenter/Default.jsp>. In addition, information about government bonds is available on the Municipal Securities Rulemaking Board's Electronic Municipal Market Access website at <https://emma.msrb.org/>. You may also obtain additional information about bonds generally by visiting the SEC's website at [Investor.gov](http://Investor.gov).

#### Options

##### *Characteristics*

We offer you access to option contracts that you can buy or sell. Options are contracts that give you the right, but not the obligation, to buy or sell an underlying asset at a fixed price within a certain period of time. Various exchanges operating in the United States and regulated by the SEC offer public trading markets where different types of options are bought and sold, such as equity, index, and interest rate options.

An option contract that gives you the right to buy the underlying asset is referred to as a "call" option, and an option contract that gives you the right to sell the underlying asset is referred to as a "put" option. Most options have certain standardized terms that indicate the nature and amount of the underlying security, the expiration date, the exercise price, and whether the option is a call or put.

Prior to buying or selling options, you will receive a copy of the Characteristics & Risks of Standardized Options document, also known as the options disclosure document (the "ODD"). Investors should read the ODD prior to buying or selling an option. The ODD contains required disclosures regarding the characteristics and risks of standardized option contracts. The ODD is available on The Options Clearing Corporation's website at <https://www.theocc.com/about/publications/character-risks.jsp>.

No certificate is issued to show your ownership of an option. You must review the confirmations and statements that you receive in order to confirm your positions in options as of the date of the confirmation or statement. It is important for you to understand the process for exercising your rights as the holder of an option contract. You should discuss this process and address any questions you may have with your financial professional.

##### *Fees and Costs*

Buying and selling options entails fees. You will typically pay us a commission every time you buy or sell an option contract. You will pay this commission in addition to the premium associated with the option contract, which you will pay regardless of whether you choose to exercise the option to buy or sell the underlying asset. This commission is a one-time fee that varies based upon the dollar amount of your transaction and the number of option contracts you trade. The total commission charge you will pay equals a base commission dollar amount, which typically ranges from \$29.50 to \$254.50 and increases with the dollar amount of your transaction, plus a percentage of the dollar amount of your transaction, which typically ranges from 1.45% to 0.8% and decreases with the dollar amount of your transaction (the "total options commission"). The total options commission you will pay is typically subject to a charge of \$29.95 plus \$5 per option contract. The premium is not a standardized term of the option contract. The premium does not constitute a "down payment." The premium is a non-refundable payment and is in addition to the commission.

In addition to the applicable commission on your options transaction, we typically charge you a trade settlement service fee which ranges from \$0 to \$29.99 every time you buy or sell an option contract in an account with us that is custodied by NFS.

#### *More Information*

You may obtain additional information about options generally by visiting the SEC's website at [Investor.gov](http://Investor.gov).

## Mutual Funds

### *Characteristics*

We offer access to a wide range of mutual funds from many different mutual fund companies. Mutual funds are registered investment companies that issue redeemable securities. Mutual funds issue shares on a continual basis, and there is no secondary trading market for mutual fund shares. Mutual funds are required to sell their shares at net asset value (“NAV”) per share plus any applicable sales charge or sales load, which is described below. A mutual fund’s NAV is calculated by dividing the total value of all the mutual fund’s assets, minus any liabilities such as ongoing fees and expenses (described below), by the number of shares outstanding.

It is extremely important for you to read a mutual fund’s prospectus carefully before investing in that mutual fund. You can request a copy of a particular mutual fund’s prospectus from your financial professional at any time, and prospectuses will be delivered to you in connection with your mutual fund purchases as and when required by law. Each mutual fund’s prospectus contains important information that will help you make an informed decision about an investment in a mutual fund. In deciding whether to invest in a mutual fund, you should consider several different factors, including, but not limited to, the mutual fund’s past performance, investment objective, investment strategies and risks, the investment adviser responsible for the management of the mutual fund’s assets, and the fees and expenses associated with an investment in a particular mutual fund. While past performance of a mutual fund is not indicative of future results, a mutual fund’s long-term performance record and portfolio manager’s experience and qualifications may be important factors in deciding whether to invest in a mutual fund.

### *Fees and Costs – Generally*

Buying, holding, and selling mutual funds entails fees. You will typically pay a sales charge or sales load when you buy shares in a mutual fund. We receive a portion of this sales charge or sales load for our efforts and the efforts of our financial professionals in selling shares of the mutual fund.

Most mutual funds utilize multiple share classes, which represent the same underlying investments but have differing fees and expenses for distribution and shareholder services. Though there are many different types of mutual fund share classes, the most common share classes available to you are Class A, Class C, and Class R. Each share class typically has different fees and costs, and therefore fund performance results will differ as those fees and expenses reduce performance across share classes. You should also note that the amount of time you expect to hold your investment in a mutual fund may play an important role in determining which share class is most appropriate for you, and you should discuss this consideration and address any questions you may have with your financial professional.

### *Fees and Costs – Share Class Distinctions*

While there are no standard definitions for mutual fund share classes, and each mutual fund defines its share classes (and their characteristics) in its prospectus, set forth below are some basic descriptions of the most common share classes available to you:

- **Class A Shares** – This share class usually carries a front-end sales charge, which is typically assessed as a percentage of your investment. This means that a front-end sales charge is deducted from your investment each time you purchase shares in the mutual fund. Class A shares also typically have ongoing fees and expenses, which sometimes include distribution and/or service fees commonly referred to as 12b-1 fees, and these 12b-1 fees are intended to finance distribution activities intended primarily to result in the sale of additional shares of the mutual fund. Despite these ongoing fees and expenses, Class A shares may have lower operating expenses compared to other share classes of the same mutual fund that may be available to you. This means that ongoing costs may be lower than ongoing costs associated with other share classes of the same mutual fund that may be available to you. Many mutual funds offer “breakpoint” discounts for large investments in Class A shares, which means that the front-end sales charge you will pay decreases as your investment increases. These breakpoints are described in detail in the mutual fund’s prospectus. Class A shares for the mutual funds we make available to you typically have front-end sales charges ranging from 0.00% (for so called “no load funds”) to 5.75% of your investment amount and annual 12b-1 fees of 0.25% of the value of your investment; however, there is significant variability in the front-end sales charges and annual 12b-1 fees carried by Class A mutual fund shares, and certain mutual funds’ Class A shares have front-end sales charges and/or annual 12b-1 fees that vary from these typical rates. Given this variability, it is extremely important for you to read a mutual fund’s prospectus carefully before investing to ensure that you completely understand the fees and costs you will incur in connection with your investment.

- **Class C Shares** – This share class is characterized by a level 12b-1 fee that you pay annually as a percentage of the value of your investment. Class C shares do not have a front-end sales charge like Class A shares but do have a contingent deferred sales charge (“CDSC”). With a CDSC, you pay a sales charge when you sell your mutual fund shares. The amount of the CDSC is typically assessed as a percentage of the value of your investment, and it declines over time and eventually is eliminated the longer you hold your shares. Some mutual funds offer Class C shares that convert to Class A shares after a specified period of time. Class C share conversion features, if any, are described in the specific mutual fund’s prospectus, and you should discuss any potential conversion features and address any questions you may have regarding these features with your financial professional. Class C shares for the mutual funds we make available to you typically have an annual 12b-1 fee of 1.00% of the value of your investment and typically impose a CDSC of 1.00% of the value of your investment if you sell your shares within the first year after purchase; however, there is variability in the annual 12b-1 fees and CDSCs carried by Class C mutual fund shares, and certain mutual funds’ Class C shares have annual 12b-1 fees and/or CDSCs that vary from these typical rates and application periods. Given this variability, it is extremely important for you to read a mutual fund’s prospectus carefully before investing to ensure that you completely understand the fees and costs you will incur in connection with your investment.
- **Class R Shares** – This share class is available to retirement investors purchasing shares in a mutual fund through employer-sponsored retirement plans, such as 401(k) plans. Class R shares do not have a front-end sales charge like Class A shares or a CDSC like Class C shares, but Class R shares do have ongoing fees and expenses such as 12b-1 fees intended to finance the distribution activities related to sales of the mutual fund’s shares. These fees and expenses are deducted from your assets on an ongoing basis.

#### *Fees and Costs – Breakpoints*

While it may make sense to own mutual funds from different mutual fund companies, it also may increase the total sales charges that you pay to purchase those mutual funds. Mutual fund companies often offer discounts or reduced sales charges based upon the total amount you choose to invest with the mutual fund company. The investment levels needed to receive these discounts or reduced sales charges are known as “breakpoints.” Mutual fund companies typically allow you to combine your holdings with those of your immediate family members to reach these breakpoints.

Set forth below are some common ways you can receive the benefits of breakpoints:

- **Rights of Accumulation:** “Rights of accumulation” allow you to combine a mutual fund purchase with your existing investments in the mutual fund company to reach a breakpoint.
- **Letter of Intent:** You can take advantage of breakpoints by agreeing to purchase a certain dollar amount in a mutual fund over a specified period of time. In most instances, this requires signing a “letter of intent,” or “LOI.”

Every mutual fund’s prospectus describes its breakpoint policies, including how you can reach breakpoints. You can request a copy of a mutual fund’s prospectus from your financial professional at any time, and prospectuses will be delivered to you in connection with your mutual fund purchases as and when required by law.

#### *Fees and Costs – Ongoing Fees and Expenses*

In addition to the 12b-1 fees mentioned above, mutual funds typically also deduct other ongoing fees and expenses, such as management fees or servicing fees, from fund assets. These ongoing fees and expenses are typically used to pay for the mutual fund’s annual operating expenses (these ongoing fees are sometimes referred to as the mutual fund’s “expense ratio”), such as paying the mutual fund’s investment manager, accounting and auditing expenses, legal expenses, recordkeeping expenses, and other expenses. In addition, as noted above, the ongoing fees and expenses include fees commonly referred to as 12b-1 fees, and these 12b-1 fees are intended to finance distribution activities intended primarily to result in the sale of additional shares of the mutual fund, and include marketing and advertising expenses.

These ongoing fees and expenses are typically charged daily as a percentage of your assets in the mutual fund. You pay these fees and expenses indirectly because they are deducted from your assets on an ongoing basis.

#### *Fees and Costs – Additional Fees for Mutual Fund Transactions in Accounts Custodied by NFS*

In addition to applicable sales charges and product-level fees and costs related to your mutual fund transactions and holdings, we typically charge you a trade settlement service fee which ranges from \$0 to \$29.99 every time you buy or sell a mutual fund in an account with us that is custodied by NFS.

## *More Information*

Information regarding a specific mutual fund's and share class' features, risks, sales charges, ongoing fees and expenses, and overall expense ratio and other important matters is available in the mutual fund's prospectus. You can request a copy of a particular mutual fund's prospectus from your financial professional at any time, and prospectuses will be delivered to you in connection with your mutual fund purchases as and when required by law. You may also obtain additional information about mutual funds generally by visiting the SEC's website at [Investor.gov](http://Investor.gov).

## Closed-End Funds

### *Characteristics*

We offer access to closed-end funds from a variety of fund companies, including several interval funds. It is extremely important for you to read a closed-end fund's prospectus carefully before investing in that closed-end fund. Each closed-end fund's prospectus contains important information that will help you make an informed decision about an investment in the closed-end fund. In deciding whether to invest in a closed-end fund, you should consider several different factors, including, but not limited to, the closed-end fund's past performance, investment objective, investment strategies and risks, the investment adviser responsible for the management of the closed-end fund's assets, and the fees and expenses associated with an investment in a particular closed-end fund. While past performance of a closed-end fund is not indicative of future results, a closed-end fund's long-term performance record and portfolio manager's experience and qualifications may be important factors in deciding whether to invest in a closed-end fund. Similar to mutual funds, closed-end funds are pooled investment vehicles. However, there are important differences between closed-end funds and mutual funds.

Unlike mutual funds, most traditional closed-end funds do not continuously offer their shares for sale. Instead, such closed-end funds typically sell a fixed number of shares through an initial public offering, after which their shares typically trade on a secondary trading market. The price of shares in a closed-end fund that trade on a secondary market after their initial public offering is determined by the market and may be higher or lower than the shares' NAV. In addition, there are certain non-traded closed-end funds that do sell their shares on an ongoing basis, and do not trade on a secondary trading market.

Many closed-end funds have no "maturity" or termination date, and shareholders may exit their investments only by selling shares on the secondary trading market. Nonetheless, these closed-end funds without termination dates may still be terminated based upon the investment manager's decision. Certain other closed-end funds, however, have a specified or targeted termination date, at which time the shareholders receive an amount equivalent to the shares' NAV at the termination date. Non-traded closed-end funds typically contemplate having a "liquidity" event at some point once the closed-end fund's offering has ceased. Liquidity events include listing the closed-end fund's shares on a secondary trading market and liquidation.

Unlike mutual funds, closed-end fund shares are not redeemable, which means that the closed-end fund is not required to buy shares back from investors upon request. Non-traded closed-end funds typically offer to repurchase their shares from investors in periodic tender offers. In addition, some closed-end funds, commonly referred to as "interval funds," offer to repurchase their shares from investors at specified intervals.

The shares of an interval fund typically do not trade on a secondary market and interval funds generally offer their shares on a continuous basis at a price based upon the closed-end fund's NAV. In order to operate as an interval fund, the closed-end fund must offer to repurchase its shares at regular intervals every three, six, or twelve months, as disclosed in the closed-end fund's prospectus. The price that interval fund shareholders receive on a repurchase will be based upon the per share NAV determined as of a specified date, minus any redemption fees or charges that may apply to the transaction.

### *Fees and Costs*

Buying, holding, and selling closed-end funds entails fees. You will typically pay a sales charge every time you buy shares in a closed-end fund's public offering and a commission every time you buy or sell shares in a closed-end fund in a secondary trading market. You will pay this sales charge or commission in addition to the amount of the closed-end fund you choose to buy or sell.

For a public offering purchase, the fund's sales charge is a one-time fixed fee, which is typically a percentage of your investment amount. Class A shares for the interval funds we make available to you typically have front-end sales charges of 5.75% of your investment amount and annual shareholder servicing expenses of 0.25% of the value of your investment.

Class C shares for the interval funds we make available to you typically do not have a front-end sales charge, but typically have annual shareholder servicing expenses and distribution fees of 1.00% of the value of your investment and impose a CDSC of up to 1.00% of the value of your investment if you sell your shares within the first year after purchase. Notwithstanding the foregoing, there is significant variability in the front-end sales charges, shareholder servicing expenses, distributions fees, and CDSCs carried by closed-end fund shares, and certain closed-end fund shares have front-end sales charges, shareholder servicing expenses, distributions fees, and/or CDSCs that vary from these typical rates and related application periods.

For purchases and sales of closed-end fund shares in the secondary trading market, you will pay commissions in accordance with the terms of our Fee and Commission Schedule that are applicable to equity transactions generally. The commissions applicable to equity transactions generally are described in the section entitled “Equities—Fees and Costs” above.

In addition to applicable sales charges, commissions, and other fees and costs related to your closed-end fund transactions and holdings, we typically charge you a trade settlement service fee which ranges from \$0 to \$29.99 every time you buy or sell a closed-end fund in an account with us that is custodied by NFS.

Some interval funds also charge you a redemption charge when you accept an interval fund’s offer to repurchase your shares. This redemption charge is a one-time fixed fee that cannot exceed 2.00% of the redemption proceeds. Unlike the sales charges and commissions, the redemption charge is not paid to us, but is paid to the fund to compensate it for expenses associated with the repurchase.

Closed-end funds, including interval funds, also deduct other ongoing fees and expenses, such as management fees, from fund assets. In addition, the ongoing fees and expenses of many interval funds include 12b-1 fees, and these 12b-1 fees are intended to finance distribution activities intended primarily to result in the sale of additional shares of the closed-end fund, and include marketing and advertising expenses. These ongoing fees and expenses, which are reflected in the closed-end fund’s overall expense ratio, are typically used to pay for the closed-end fund’s continued operations, such as paying the closed-end fund’s investment manager, accounting and auditing expenses, legal expenses, recordkeeping expenses, and other expenses.

These ongoing fees and expenses are typically charged daily as a percentage of your assets. You pay these fees and expenses indirectly because they are deducted from your assets on an ongoing basis. These payments, as well as the conflicts of interest associated with them, are described more fully in Section 2.1 below.

#### *More Information*

Information regarding a specific closed-end fund’s features, risks, sales charges, ongoing fees and expenses, and overall expense ratio and other important matters is available in the closed-end fund’s prospectus. You can request a copy of a closed-end fund’s prospectus from your financial professional at any time, and prospectuses will be delivered to you in connection with your closed-end fund purchases as and when required by law. You may also obtain additional information about closed-end funds generally by visiting the SEC’s website at [Investor.gov](http://Investor.gov).

#### Exchange-Traded Funds

##### *Characteristics*

We offer access to a wide range of ETFs. ETFs are investment funds that are listed for trading on a national securities exchange and can be bought and sold in the equity trading markets. Shares in the ETF represent an interest in a portfolio of securities.

ETFs possess characteristics of both mutual funds and closed-end funds. Similar to mutual funds, an ETF pools assets of multiple investors and invests those pooled assets according to its investment objective and investment strategy. ETFs also continuously offer their shares for sale like mutual funds. In addition, ETFs share certain characteristics with closed-end funds, namely that the ETF’s shares trade on a secondary market and may trade at prices higher or lower than the ETF’s NAV.

However, ETFs do not sell or redeem individual shares. Instead, certain “authorized participants” have contractual arrangements with the ETF to purchase and redeem ETF shares directly from the ETF in blocks called “creation units” and “redemption units,” respectively, where each creation or redemption unit typically represents 50,000 shares of the ETF. After purchasing a “creation unit,” the authorized participants generally sell the ETF shares in the secondary trading market.

This creation and redemption process for ETF shares provides arbitrage opportunities designed to help keep the market price of ETF shares at or close to the NAV per share of the ETF. For example, if ETF shares are trading at a price below the NAV (generally referred to as a “discount”), an authorized participant can purchase ETF shares in secondary market transactions, and, after accumulating enough shares to compose a “redemption unit,” redeem them from the ETF for the more valuable underlying securities. The authorized participant’s purchase of ETF shares in the secondary market would create upward pressure on ETF share prices, which would bring them closer to the NAV per share of the ETF.

### *Fees and Costs*

Buying, holding, and selling ETFs entails fees. You will typically pay a commission every time you buy or sell shares in an ETF. You will pay this commission in addition to the market price of the ETF you choose to buy or sell. This commission is a one-time fixed fee that is calculated in accordance with the terms of our Fee and Commission Schedule that are generally applicable to equity transactions. The commissions applicable to equity transactions generally are described in the section entitled “Equities—Fees and Costs” above.

In addition to the applicable commission on your ETF transaction, we typically charge you a trade settlement service fee which ranges from \$0 to \$29.99 every time you buy or sell an ETF in an account with us that is custodied by NFS.

ETFs also deduct ongoing fees and expenses, such as management fees, from ETF assets. These ongoing fees and expenses are typically used to pay for the ETF’s continuing operations, such as paying the ETF’s investment manager, accounting and auditing expenses, legal expenses, recordkeeping expenses, and other expenses. However, ETFs generally have lower expense ratios than mutual funds because most ETFs are not actively managed and, therefore, do not incur the internal costs of buying and selling the underlying portfolio securities.

These ongoing fees and expenses are typically charged annually as a percentage of your assets. You pay these fees and expenses indirectly because they are deducted from your assets on an ongoing basis.

### *More Information*

Information regarding a specific ETF’s features, risks, ongoing fees and expenses, and overall expense ratio and other important matters is available in the ETF’s prospectus. You can request a copy of an ETF’s prospectus from your financial professional at any time. You may also obtain additional information about ETFs generally by visiting the SEC’s website at [Investor.gov](http://Investor.gov).

## Unit Investment Trusts

### *Characteristics*

We offer access to a wide range of UITs. UITs are pooled investment vehicles in which a portfolio of securities is selected by the trust’s sponsor and deposited into the trust for a specified period of time. The UIT’s portfolio of securities is not actively traded, as the trust generally follows a “buy and hold” investment strategy. The portfolio will generally remain fixed until the termination of the trust. UIT term lengths vary, but they generally have a maturity date between 15 to 24 months from the initial offering date.

At the UIT’s maturity, an investor typically has three options: (1) receive the proceeds based upon the value of the investment; (2) roll over into a newly issued UIT; or (3) in limited circumstances, an investor may be able to receive proportionate shares of the securities held in the UIT’s portfolio.

The UIT’s portfolio is generally designed to follow an investment objective over a specified period of time. A UIT is formed by the trust sponsor, who enters into an agreement with the trustee. When the trust is formed, several investment terms and conditions are set forth in the trust agreement, such as the trust objective, what securities will be placed in the trust, when the trust will terminate, and what fees and expenses will be charged to the trust’s assets. These terms and conditions of the trust will be listed in the UIT’s prospectus.

### *Fees and Costs*

Buying, holding, and selling UITs entails fees. You will typically pay a sales charge when you buy units in a UIT’s initial offering, or a commission when you buy or sell units in a UIT in a secondary trading market. You will pay this sales charge or commission in addition to the amount of the UIT you choose to buy or sell.

Sales charges for initial offerings of equity UITs typically range from 1.85% to 3.95% of your investment, while sales charges for initial offerings of fixed-income UITs typically range from 1.95% to 3.50% of your investment. You can expect



to pay higher sales charges for UITs with longer durations, and lower sales charges for UITs with shorter durations.

In addition to applicable sales charges on your UIT transaction, we typically charge you a trade settlement service fee which ranges from \$0 to \$29.99 every time you buy or sell a UIT in an account with us that is custodied by NFS.

In some instances, collection of all or part of a sales charge is deferred over a period subsequent to the settlement date for the purchase of UIT units. Typically, the deferred sales charge is deducted from the unitholder's distributions on the units during the collection period until the total amount of the sales charge is paid.

Repeatedly selling UITs before their maturity date followed by the purchase of a newly issued UIT will cause you to incur sales charges with greater frequency.

UITs also deduct other fees and expenses from trust assets, such as organizational and operating expenses. These fees and expenses include portfolio supervision, recordkeeping, administrative fees, and trustee fees. UITs also charge creation and development fees, which compensate the sponsors for creating and developing the trusts. However, UITs generally do not deduct a separate management fee because the portfolio is not actively managed.

### *More Information*

Information regarding a specific UIT's features, risks, sales charges, ongoing fees and expenses, and overall expense ratio and other important matters is available in the UIT's prospectus. You can request a copy of a UIT's prospectus from your financial professional at any time, and prospectuses will be delivered to you in connection with your UIT purchases as and when required by law. You may also obtain additional information about UITs generally by visiting the SEC's website at [Investor.gov](http://Investor.gov).

## Education Savings Plans

### *Characteristics*

We offer access to various education savings plans, which are a type of "529 plan." 529 plans are tax-advantaged and state-sponsored investment programs designed specifically for education savings and named after the section of the Internal Revenue Code that authorized them.

There are two general types of 529 plans: education savings plans and prepaid tuition plans. Education savings plans are securities that allow investment earnings to grow tax-deferred, and withdrawals are exempt from federal taxation when used for qualified educational expenses. Education savings plans generally operate through state-sponsored trusts and permit investors to allocate contributions to one or more trust portfolios or "investment options" offered in the plan. Prepaid tuition plans allow investors to "lock in" tuition rates at certain specified educational institutions. Every state offers at least one type of these 529 plans, and some states offer both types of 529 plan. The remainder of this disclosure discusses education savings plans.

Education savings plan contributions are generally invested in certain underlying investment options, such as mutual funds, that support the plan. The contributions will fluctuate in value as the underlying investment options increase or decrease, and there is no guarantee that the amount contributed to the education savings plan will equal the amount necessary for future education expenses. Although similar to mutual funds in certain ways, education savings plans are issued by state governments, and are not directly regulated or registered under the federal securities laws.

It is extremely important for you to read an education savings plan's offering document (often called a program description or "official statement") carefully before investing in that education savings plan. Each education savings plan's offering document contains important information that will help you make an informed decision about an investment in an education savings plan. In deciding whether to invest in an education savings plan, you should consider several different factors, including, but not limited to, each investment option's past performance, investment objective, investment strategies and risks, the investment adviser responsible for advising the state issuer, and the fees and expenses associated with an investment in a particular investment option. While past performance of an investment option is not indicative of future results, an investment option's long-term performance record may be an important factor in deciding to invest in the investment option.

### *Fees and Costs*

Investing in an education savings plan entails fees. You typically will pay a sales charge when you purchase an education savings plan. We receive a portion of this sales charge for the sales and related services we provide to the primary distributor of the education savings plan.

Most education savings plans offer multiple units (often called share classes), similar to the share class structure offered by many mutual funds. Though there are several types of education savings plan share classes, the most common share classes available to you are Class A, Class B, and Class C. Each class typically has different fees and expenses, and therefore investment option performance results will differ as those fees and expenses reduce performance across share classes. You should also note that the amount of time you expect to hold your investment in an education savings plan may play an important role in determining which share class is most appropriate for you, and you should discuss this consideration with your financial professional.

While there are no standard definitions for these share classes, and each education savings plan defines its share classes (and their characteristics) in its offering document, set forth below are some basic descriptions of the most common share classes available to you:

- **Class A** – This share class usually carries a front-end sales charge, which is assessed as a percentage of each contribution and typically ranges from 1.00% to 5.75% of the amount you invest. The net amount of your contribution after the deduction of the sales charge is invested in shares of the education savings plan investment option(s) that you select. Class A shares may have lower operating expenses compared to the other share classes of the same investment option. This means that ongoing costs may be lower than ongoing costs associated with other share classes of the same investment option. Many education savings plans also offer “breakpoint” discounts for large investments in Class A shares of investment options, which means that the front-end sales charge decreases as your investment increases. These breakpoints are described in the education savings plan’s offering document.
- **Class B** – This share class is characterized by a back-end sales charge or CDSC but has no front-end sales charge like Class A shares. This CDSC means that you pay a sales charge when you redeem shares from your investment option. The amount of the CDSC is typically assessed as a percentage of the investment option, and it declines over time the longer you hold your investment option shares and eventually is eliminated. The period of decline typically lasts anywhere from five to eight years depending on the particular education savings plan and investment option. Once the CDSC is eliminated (typically at the end of that five-to-eight-year period), Class B shares usually convert to Class A shares. Until this conversion takes place, Class B shares will typically have higher ongoing operating expenses than Class A shares.
- **Class C** – This share class is characterized by a level asset-based sales charge that you pay annually as a percentage of your assets in an investment option. It does not have a front-end sales charge like Class A shares, but does have a CDSC like Class B shares. However, unlike Class B shares, the CDSC for Class C shares is generally eliminated after a short period of time (usually one year).

In addition to these sales charges, education savings plans typically deduct certain ongoing fees and expenses from each investment option, such as program management fees, from assets in the investment options. Although these ongoing fees and expenses may vary based upon your education savings plan, some of the more common ones are set forth below:

- **Program Management Fee:** Education savings plans generally deduct a program management fee to pay the program manager for providing investment advisory, accounting, and other services to the plan. This fee is typically charged annually as a percentage of your assets and is reflected in the NAV of the plan’s investment options.
- **Maintenance Fee:** Most education savings plans charge an annual maintenance fee. This fee, which compensates the plan sponsor for costs of maintaining the plan, may be waived in certain circumstances, such as when your plan assets exceed certain thresholds.
- **Underlying Mutual Fund Expenses:** Most education savings plan investment options invest in one or more mutual funds and bear a portion of the fees and expenses of these underlying funds. The underlying mutual fund expenses are deducted from fund assets and reflected in the NAVs of the underlying mutual funds, which means they are also reflected in the NAV of the education savings plan’s investment options. More information on the mutual funds that underlie the plan’s investment options is available in the education savings plan’s offering document. In addition, more information on the underlying mutual funds, including their ongoing fees and expenses and overall expense ratio, is available in the funds’ prospectuses.

You pay these fees and expenses indirectly as they are deducted from your investment option assets, or the assets of underlying mutual funds, on an ongoing basis.

*More Information*

Information regarding a specific education savings plan's features, risks, sales charges, and ongoing fees and expenses and other important matters is available in the education savings plan's offering document. You can request a copy of an education savings plan's offering document from your financial professional at any time. You may also obtain additional information about education savings plans generally by visiting the SEC's website at [Investor.gov](http://Investor.gov).

## Variable Products

### *Characteristics*

We offer access to variable annuities and variable life insurance policies. Variable products are issued by different insurance companies and will be in the form of a contract or policy between you and the insurance company. There are differences from one variable product to the next in the features, benefits, fees, and costs of the product and in minimum and maximum premium amounts. Below is general information about variable products. Information about the particular features, benefits, fees, and costs for a specific variable product can be found in the prospectus for that specific product. You will receive a copy of the prospectus for the variable product that your financial professional recommends to you.

Variable annuities can help with saving for retirement. Funds invested in variable annuities can grow tax-deferred. This means you will pay no federal taxes on the income and investment gains on the funds you invest in your variable annuity until you make a withdrawal, receive income payments, or a death benefit is paid. When you withdraw your funds, however, you will pay tax on the gains at ordinary federal income tax rates rather than at lower capital gains rates. When you start taking income payments, you can select payment options that will guarantee you payments for as long as you live. Some variable annuities offer additional features and guarantees, available as options or riders.

Variable life insurance provides life insurance protection (i.e., a death benefit) and allows you to accumulate a cash value that can grow tax-deferred. Most variable life insurance policies allow you to take out loans against your cash value and make withdrawals as long as the remaining cash value is sufficient to keep the policy in force. You can also terminate your policy by surrendering it and receiving the remaining cash value. Terminating your policy will terminate your death benefit protection. Most insurance companies offer riders and other options with their variable life insurance policies, such as disability insurance, income benefits, or accelerated death benefits.

When you purchase a variable product, your insurance premium contributions (net of any fees and charges deducted from premiums) are invested in the investment options—typically underlying mutual funds—that you select. The value of your investment, which usually is referred to as your “cash value,” “accumulation value,” or “account value” will fluctuate as the values of the underlying mutual funds you have selected increase or decrease.

Most insurance companies impose a minimum requirement on the initial premium. In the case of variable life insurance policies, you likely will be required to make premium payments periodically to keep the policy in force. While you may have some flexibility in the amount or timing of these periodic premium payments, you should consider whether you can afford to continue making premium payments when deciding to purchase a variable life insurance policy. If you fail to make sufficient payments to keep the policy in force, the policy will lapse (that is, terminate without value) and you will no longer have any death benefit protection.

Variable products are not short-term savings vehicles. Withdrawing funds or surrendering a variable product in the short term after purchase will likely trigger surrender fees and charges and may also trigger tax penalties. You can lose the money you invest in variable products, including your initial investment, due to poor performance of the investment options you select and/or the cumulative impact of fees and charges on your cash value.

### *Fees and Costs – Variable Annuity Share Class Distinctions*

Insurance companies offer different share classes of variable annuities. While there are no standard definitions for variable annuity share classes, and each variable annuity defines its share classes (and their characteristics) in its prospectus, set forth below are some basic descriptions of the most common variable annuity share classes we make available to you:

- **Class B Shares** – If you purchase a Class B share variable annuity, you will not pay a front-end sales charge in most cases. However, you will be required to pay a CDSC (contingent deferred sales charge also known as a “surrender charge”) if you make a partial or full surrender of the variable annuity within the surrender period. The variable annuity's prospectus will identify the terms of the surrender schedule, but generally the surrender period for Class B shares average from six to eight years, with the surrender charge initially ranging from 6.00% to 8.00% of the variable annuity's value. The surrender charge typically decreases each contract year until it reaches zero at the end of the surrender period.

- Class C Shares – Class C share variable annuities generally do not carry surrender charges. However, because of their added liquidity, these variable annuities will typically carry higher ongoing M&E charges and associated fees and can therefore be more expensive over time than other share classes with lower ongoing expenses. Class C share variable annuities may be better suited for customers who are willing to pay higher fees in exchange for greater flexibility in their variable annuity investment.
- Class L Shares – Class L share variable annuities are similar to Class B share variable annuities in that they carry a surrender charge for early withdrawals. However, Class L share variable annuities typically have a shorter surrender charge period than Class B share variable annuities (i.e., generally three to four years). Class L share variable annuities also typically carry higher charges and fees, and unless those ongoing fees are reduced at some point, such as at the expiration of the surrender charge period, Class L share variable annuities can be more expensive over time than share classes with lower ongoing expenses.

#### *Fees and Costs – Premium Payment Deductions*

With some variable products, the insurance company deducts a fee from your premium payment, with the effect that only the net premium amount is invested or allocated. In the case of variable annuities, the fee deduction is usually to cover a state insurance premium tax. In the case of variable life insurance policies, the fee deduction can also cover the insurer's sales expenses.

#### *Fees and Costs – Surrender and Withdrawal Charges*

Most variable products impose a surrender charge if you surrender your variable product or make a withdrawal of your cash value during the surrender charge period. The specific surrender charge and surrender period are described in detail in the specific variable product's prospectus. Surrender charge periods vary by variable product, but typically range from six to eight years for variable annuities, though they may range up to 15 years for some variable life insurance policies.

Surrender charges also vary by variable product. Typically, surrender charges decrease over the duration of the surrender charge period, with higher surrender charges applying to surrenders and withdrawals made at the beginning of the surrender charge period, and lower surrender charges applying to surrenders and withdrawals made toward the end of the surrender charge period. Tax penalties can also apply to variable annuity surrenders and withdrawals made before the insured has attained age 59½.

For the Class B share variable annuities, surrender charges generally begin around 6.00% to 8.00% of the purchase payment in year one and end at 1.00% to 2.00% of the cash value in the final year of the surrender charge period. For the Class L share variable annuities, surrender charges generally begin around 7.00% of the purchase payment in year one and end at 5.00% of the contract value in the final year of the surrender charge period. As noted above, Class C share variable annuities generally do not carry surrender charges. Surrender charges for variable life insurance policies vary widely from product to product, and you should refer to the prospectus for a particular variable life insurance policy for specific details regarding surrender charges and surrender charge periods. There is significant variability in the surrender charges and surrender charge periods for variable products, and certain variable products have surrender charges and surrender periods that vary from the typical surrender charges and surrender charge periods discussed above.

#### *Fees and Costs – Ongoing Fees and Expenses*

Insurance companies deduct fees and expenses from your cash value to cover fees and expenses. These ongoing fees and expenses commonly include M&E fees (mortality and expense), cost of insurance fees (assessed under variable life insurance policies), administration fees, transaction fees, and fees associated with certain optional riders. M&E risk fees are calculated as a percentage of your insurance coverage or account value and are described as an annualized rate charged against assets. However, some fees, such as administration or transaction fees, are fixed fees charged annually or when specific transactions occur and are deducted from your cash value. The cost of insurance fees charged on variable life insurance policies is typically calculated by applying a rate based upon your underwriting classification to the "net amount at risk" (the difference between your variable life insurance policy's death benefit and cash value). These fees typically are deducted from your cash value on an ongoing basis. If you add riders to your variable annuity or variable life insurance policy, the fees for those additional riders will be deducted from your cash value.

In addition, you will indirectly pay the ongoing fees and expenses for the mutual funds that are the underlying investments for the variable product in which you invest. These fees and expenses are separate from the fees charged by the insurance company and will be reflected in the performance of the underlying investment options. These ongoing fees and expenses include, among others, the mutual fund's management fees, servicing fees, and 12b-1 fees, and are typically charged as an annualized rate against fund assets.

The commissions, surrender charges, and ongoing fees and expenses associated with variable products vary by insurance company and the type of variable product selected.

Information regarding a specific variable product's features, risks, commissions, surrender charges, and ongoing fees and expenses and other important matters is available in the variable product's prospectus. You can request a copy of a variable product's prospectus from your financial professional at any time, and you will receive a copy of the prospectus for any variable product that your financial professional recommends to you.

#### *Fees and Costs – Our Commissions*

When you purchase a variable product, the issuing insurance company will pay a commission to us. While you do not pay this commission directly, the insurer factors this commission into the product's fees and costs. In this way, you indirectly pay the commission. We receive this commission for our sales efforts and for assisting you with the insurance application and the underwriting and delivery processes, and the ongoing servicing and investing of your variable product. We share a portion of this commission with your financial professional.

Commissions we receive vary based upon the variable product and insurance company, and by the type of variable product you purchase. In addition, your financial professional may have choices as to the manner in which commissions are paid, such as a higher deposit-based commissions with lower ongoing asset-based commissions, or lower deposit-based commissions and higher ongoing asset-based commissions. For a particular variable annuity contract, the choice of compensation methodology selected by the financial professional does not affect the fees and expenses of the product.

For variable life insurance products, commissions are typically structured in such a way that provides higher compensation in the year of purchase up to a specified amount of premium, referred to as the "target premium," with lower commissions on payments in excess of the target premium and in subsequent policy years. Commission payments may also include asset-based commissions after the first policy year, based on the cash value of the policy. Although variable product commissions vary, we typically receive a commission of 5.00% to 7.00% for a variable annuity sale, with additional compensation options that provide for ongoing asset-based commissions of up to 1.0% annually. For a variable life insurance policy sale, we typically receive a commission that ranges up to 100% or more of the first-year target premium, and 2.00% to 5.00% of premiums paid in subsequent policy years.

#### *More Information*

Information regarding a specific variable product's features, risks, commissions, surrender charges, and ongoing fees and expenses and other important matters is available in the variable product's prospectus. You can request a copy of a variable product's prospectus from your financial professional at any time, and you will receive a copy of the prospectus for any variable product that your financial professional recommends to you. You may also obtain additional information about variable products generally by visiting the SEC's website at [Investor.gov](http://Investor.gov).

## **2. Conflicts of Interest**

We have identified conflicts of interest ("conflicts") that relate to the recommendations we and our financial professionals make. A conflict arises when an economic or other benefit incentivizes either us or our financial professional to put our interests and/or the interests of the financial professional ahead of the interests of a customer. Some of these conflicts exist between retail customers and both us and our financial professionals, while others exist between retail customers and us alone or between retail customers and our financial professionals alone. This section discloses material facts relating to these conflicts so that you are able to make an informed decision regarding any recommendation your financial professional provides you.

### **2.1. Conflicts for Both Our Firm and Our Financial Professionals**

When acting in a broker-dealer capacity, we are committed to ensuring that we and our financial professionals always act in the best interest of our retail customers and do not place our or their financial or other interests ahead of retail customers' interests when making recommendations; however, conflicts between retail customers and both us and our financial professionals are caused by a variety of arrangements, including, but not limited to, the role we play in a transaction, compensation arrangements, and trading arrangements. The material facts relating to conflicts between retail customers and both us and our financial professionals are as follows:

- We and our financial professionals get paid more when you trade more, purchase additional investments, and engage in other fee-generating activities. You are charged and we are paid a variety of fees each time you trade in your brokerage account, each time you make a new investment, and each time you engage in other fee-generating activities. We pay our financial professionals a portion of the transaction-based commission, sales

charge, sales load, and markup/markdown payments that you are charged and that we receive. Our and our financial professionals' receipt of these transaction-based payments, including, but not limited to, commissions, sales charges, sales loads, and markups, incentivizes us and our financial professionals to recommend that you trade more frequently, purchase additional investments, and engage in other fee-generating activities that result in you being charged more and us and your financial professional receiving more compensation. Our and our financial professionals' receipt of these transaction-based payments also incentivizes us to recommend that you trade in investments that pay us the highest rate of compensation, rather than investments that pay us lesser or no compensation. For additional information on fees and costs, see the section entitled "Fees and Costs" above.

- For some investments you purchase, we receive payments from a third-party that are in addition to the transaction-based payments described immediately above. This is typically the case when you purchase mutual funds, interval funds, education savings plans, variable products, and certain other investment products. For example, certain issuers make ongoing payments to us based upon invested assets (not just new investments), such as 12b-1 fees, shareholder servicing fees, distribution fees, and trail compensation. An overview of these third-party payments is provided in the section entitled "Fees and Costs Associated with Your Transactions and Holdings" above. Detailed information regarding third-party payments we receive in connection with particular investments is provided in the prospectus or other offering document for the particular investment, which you can request from your financial professional at any time and will be made available to you in connection with any purchase. We pay our financial professionals a portion of these fees that we receive. Our and our financial professionals' receipt of these third-party payments incentivizes us and our financial professionals to sell you and recommend that you hold investments that generate these payments to us, rather than investments that do not generate these payments to us or that generate comparatively lower payments to us.
- For investments with multi-share class structures, we and our financial professionals generally receive comparatively more compensation when we recommend that you purchase or hold a share class that is more costly for you. Some investments, including mutual funds, interval funds, education savings plans, and variable annuities, offer multiple share classes, and we and our financial professionals will earn higher commissions, ongoing payments, and other compensation if you invest in certain share classes than we would if you invest in others. Our receipt of these comparatively higher commissions, ongoing payments, and other compensation incentivizes us and our financial professionals to sell you and recommend that you hold the share class in a multi-share class structure that results in the most compensation for us and is likely to be more costly for you. Please note, however, that where investments have multi-share class structures, the lowest-cost share classes may not be available to retail customers, like you, as a result of high minimum investment amounts or account type requirements (e.g., a 401K retirement account or an advisory account). You can find more information about the compensation paid to us, and the expenses you will incur, in connection with different share classes of the same investment in the prospectus or other offering document for the investment, or by asking your financial professional. You should not assume that you are always recommended or invested in the share class with the lowest internal expenses or costs.
- We and our financial professionals have financial incentive to recommend a rollover transaction and that you purchase investments in your rollover account. We and our financial professionals can recommend that you roll over assets from your workplace retirement plan into an IRA. When you engage in a rollover to an IRA, we and our financial professionals will receive compensation in connection with the investments you hold in your IRA. Our and our financial professionals' receipt of this compensation incentivizes us and our financial professionals to recommend that you roll over assets from your workplace retirement plan into an IRA and purchase investments within your IRA that result in additional compensation for us and our financial professionals.
- We and our financial professionals have an incentive to recommend that you open and utilize the account type that pays us the most compensation. We and our financial professionals can recommend that you invest through different account types and arrangements, such as through a broker-dealer account, an account directly held with the issuer of the investment, or an investment advisory account. Depending on factors including, but not limited to, the type and level of services you require as well as the frequency of trading in your account, one of these account types may be more cost-effective for you than the others and we and our financial professionals will earn more compensation in connection with certain of these account types than others. The availability of different account types incentivizes us and our financial professionals to recommend that you open and utilize the account type that results in the most compensation for us and our financial professionals.
- We and our financial professionals have an incentive to recommend that you purchase investments that pay us the highest rate of compensation. We offer access to a variety of different investment categories and investment products and the compensation that we and our financial professionals receive in connection with your transactions varies among investment categories, particular investments within those categories, and share

classes within those particular investments. As our and our financial professionals' compensation varies depending on the investment category, particular investment, and share class you select, we and our financial professionals have an incentive to recommend that you make purchases in investment categories, particular investments, and particular share classes that pay us the highest rate of compensation, rather than in investment categories, investments, and share classes that pay us lesser or no compensation.

## **2.2. Conflicts for Our Firm Alone**

When acting in a broker-dealer capacity, we are committed to ensuring that we always act in the best interest of our customers and do not place our financial or other interests ahead of customers' interests when making recommendations; however, conflicts between retail customers and our firm are caused by a variety of arrangements, including, but not limited to, the role we play in a transaction, compensation arrangements, trading arrangements, and customer-specific arrangements. The material facts relating to conflicts between retail customers and our firm are as follows:

- NFS, our contracted custodian and clearing firm, makes revenue sharing payments to us. NFS makes periodic asset-based revenue sharing payments to us based upon a percentage of our total customer assets invested in mutual funds participating in NFS' no transaction fee mutual fund program ("NTF mutual funds"). NFS also pays us an annual fixed dollar amount for each customer position in a mutual fund participating in NFS' transaction fee mutual fund program ("TF mutual funds"). Our receipt of these revenue sharing payments from NFS incentivizes us to recommend that you purchase and hold investments at NFS in NTF mutual funds and TF mutual funds, which generate these revenue sharing payments to us, rather than investments that do not generate these payments to us or that generate comparatively lower payments to us. These investments may not be the most cost-effective for you depending on your particular circumstances.
- In contracting to do business together NFS, our custodian and clearing firm, made an initial payment and we are entitled to seven additional payments (made annually), provided that our client assets remain custodied at NFS. Additionally, in the event the business arrangement with NFS terminated, we would be required to make a penalty payment in the form of a termination fee to NFS. Our receipt of these payments and the related repayment obligations incentivize us to maintain our clearing agreement with NFS, and to recommend that you utilize a brokerage account custodied by NFS (as opposed to, for example, accounts held directly with the issuers of the securities you purchase), and to recommend that you increase or maintain the amount of assets held in your accounts that are custodied by NFS.
- We have an incentive to minimize the costs we incur as a result of your securities transactions. We incur costs when you engage in securities transactions. Some securities transactions and investment strategies are less costly for us than others. As a result, we have an incentive to recommend that you purchase and hold securities and pursue investment strategies that result in the least amount of cost for us.
- We get paid when you engage in margin trading. When you engage in margin trading, where NFS extends credit (a loan) to you for the purpose of purchasing, carrying, or trading in securities, we charge you interest on all credit extended to you by NFS and we retain a portion of any interest you pay. Our retention of a portion of the margin interest payments you make incentivizes us to recommend that you apply for margin trading privileges, engage in margin trading, and increase the amount of credit extended to you by NFS because we will receive more compensation when you do so.
- We engage in principal transactions with you in certain circumstances. When we sell a bond to you or purchase a bond from you in a principal capacity, we have the ability to mark the price of the bond you intend to purchase or sell up or down. In principal transactions, we have an incentive to mark bond prices up or down in order to generate the most possible compensation for us, which will cause you to pay more for your purchase or receive less for your sale.

## **2.3. Conflicts for Our Financial Professionals Alone**

When acting in a broker-dealer capacity, we are committed to ensuring that our financial professionals always act in the best interest of our retail customers and do not place our or their financial or other interests ahead of retail customers' interests; however, conflicts between retail customers and our financial professionals are caused by a variety of arrangements, including, but not limited to, compensation arrangements, retail customer-specific arrangements, and outside business activities. The material facts relating to conflicts between retail customers and our financial professionals are as follows:

- Your financial professional's compensation is dependent upon their sales. Your financial professional's

compensation is tied to factors including asset accumulation, total sales, or total compensation. This arrangement incentivizes your financial professional to recommend that you trade more frequently, purchase additional investments, and purchase products that generate higher compensation so that he or she will increase their compensation.

- Some new recruits receive forgivable loans when they join our firm and have outstanding loan balances forgiven over time based on a combination of assets transferred to our firm and revenue generated. If your financial professional received a forgivable loan and has an outstanding loan balance, your financial professional has an incentive to recommend that you trade often, purchase additional investments, purchase investments that result in higher compensation, and engage in other fee-generating activities that will cause all or a portion of his or her outstanding loan balance to be forgiven by us.
- Some of our financial professionals conduct business activities outside of the scope of their relationship with us (“outside business activities”) that compete for their time and could potentially influence the recommendations they make to you. If your financial professional engages in any outside business activities, these outside business activities can incentivize your financial professional to spend more time on the outside business activity rather than on his or her broker-dealer relationship with you. Additionally, depending on the nature of your financial professional’s outside business activities, your financial professional’s outside business activities and related professional and personal interests can have the potential to influence the recommendations that he or she makes to you. You may research any outside business activities your financial professional may have on FINRA’s BrokerCheck website at <https://brokercheck.finra.org/>.
- Some of our financial professionals are subject to material limitations. As described in the Section 1.2.1 above, some of our financial professionals are limited in the investments, services, and account types they can recommend to you as a result of their not being licensed to provide investment advisory services, the securities and insurance licenses they hold, and their insurance company appointments. If your financial professional is subject to a material limitation on the investments, services, or account types he or she can recommend to you, your financial professional has an incentive to recommend that you invest in and utilize the investments, services, and account types that he or she is authorized to recommend because he or she will only be compensated if you do so.
- Our financial professionals have an incentive to minimize the costs they incur as a result of your securities transactions. Our financial professionals incur costs when you engage in securities transactions. Some securities transactions and investment strategies are less costly for our financial professionals than others. As a result, our financial professionals have an incentive to recommend that you purchase and hold securities and pursue investment strategies that result in the least amount of cost for them.