

**Kestra Investment Services, LLC**  
**Kestra Advisory Services, LLC**  
**Kestra Private Wealth Services, LLC**

REGULATION BEST INTEREST DISCLOSURE

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We provide this Regulation Best Interest Disclosure (the Reg BI Disclosure) to our retail customers to inform them about the services we offer and our relationship with them. Among other things, this Reg BI Disclosure addresses the scope and terms of our relationship with you, the capacity in which we are acting, the type and scope of our services, any material limitations on our services, the fees and costs associated with your holdings, accounts, and transactions, and the conflicts of interest that exist for us and our financial professionals. We make additional information available through our website, and if you require more information, you may work with your financial professional to review the applicable documentation including account application forms, offering documents, and prospectuses. If you do not have access to the internet, or do not wish to review the information we post electronically, you may request a hard copy version of any of the information by calling 844-553-7872.

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

Kestra Investment Services, LLC (Kestra IS) is a registered broker-dealer. Kestra Advisory Services, LLC (Kestra AS) and Kestra Private Wealth Services, LLC (Kestra PWS) are investment advisers (RIAs) registered with the Securities and Exchange Commission (SEC). These 3 firms are affiliates. Your financial professional may offer brokerage services through the Kestra IS or investment advisory services through Kestra AS, Kestra PWS, or a separate RIA. Depending on your needs and your investment objectives, your financial professional may assist you with brokerage services, investment advisory services, or both where appropriate. Not all financial professionals offer broker-dealer or investment advisory services and not all are licensed to offer the full suite of products and services available through Kestra IS, Kestra AS, or Kestra PWS.

Brokerage and investment advisory services and fees differ, and it is important for you to understand these differences, including their costs, the services that may be provided, and the rules that govern them. Free and simple tools are available for you to research firms and financial professionals at [www.investor.gov/CRS](http://www.investor.gov/CRS), which also provides educational materials about broker-dealers, investment advisers, and investing. Information about our services as well as the Form CRS Customer Relationship Summary disclosure is available at [kestrafinancial.com/disclosures](http://kestrafinancial.com/disclosures).

### **1.1. Our Capacity**

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

This section describes the capacity in which Kestra IS provides services to you.

As a broker-dealer, we recommend and effect securities transactions for you, including buying and selling securities such as stocks, bonds, mutual funds and variable insurance products. We offer a variety of account types, including non-qualified (taxable), retirement (IRAs) and education (e.g. college savings plan) accounts. We make available brokerage accounts, held with our clearing firm and custodian National Financial Services, LLC (NFS), as well as the ability to hold investments such as mutual funds, variable insurance or private placement products, directly with the issuer of the security or their affiliate (sometimes referred to as direct accounts). Our broker-dealer does not take custody of client assets.

Mutual funds can be purchased in a brokerage account or through a direct account with the mutual fund company. For direct mutual fund accounts, we will at your request take over as broker-dealer of an existing account, but we will not open new direct mutual fund accounts unless the account is a retirement plan account, including a SEP or SIMPLE IRA, a 529 account, or a limited number of other account types generally not offered through NFS.

Brokerage accounts can hold a variety of investments approved on the NFS platform. If appropriate, these accounts can be approved to purchase options and to purchase securities on margin. In addition to holding securities in a brokerage account, we offer the option to hold cash in either money market funds (non-insured) or a bank account insured by the Federal Deposit Insurance Corporation (a "cash sweep vehicle") at NFS. We do not have minimum account requirements for our brokerage accounts, but some of the investments you can purchase through us have minimum investment requirements. More information about these minimum investment requirements is available in the investment's offering document or prospectus.

We provide a number of services related to investments in securities, including taking customer orders, executing securities transactions, and providing general information regarding your investments. Our financial professionals also provide recommendations concerning whether to buy, sell, or hold securities.

Our financial professionals do not make investment decisions for you or manage your brokerage account on a discretionary basis. Because our financial professionals do not have discretionary investment authority in this capacity, we cannot buy or sell investments in your brokerage account without first obtaining your consent. Our financial professionals may recommend investments to you, but you are responsible for making the decision whether to purchase or sell investments, and we will only purchase or sell investments when specifically directed by you. Our financial professionals are available to assist you, and may periodically review your account(s) to offer subsequent recommendations however, our financial professionals do not monitor your account after a securities transaction is effected for you, including those investments they recommend for you.

When we act in our capacity as a broker-dealer, we are subject to the Securities Act of 1933, the Securities Exchange Act of 1934, as amended, the rules of self-regulatory organizations, such as the Financial Industry Regulatory Authority, Inc. (FINRA),



and applicable state laws. Pursuant to the SEC's Regulation Best Interest, we must act in your best interest and we owe you a duty of care and loyalty. This means we must avoid conflicts of interest or, at a minimum, disclose them to you.

### ***Investment Adviser Capacity***

This section describes the capacity in which Kestra AS or Kestra PWS provide services to you.

As an investment adviser, we provide investment advice to you for a fee, including investment advice with respect to particular investments, and other investment advisory programs. We typically place trades for our clients through Kestra IS, which in turn introduces accounts and transactions to its clearing firm and custodian, NFS. However, we sometimes designate Pershing, Fidelity Institutional Wealth Services (IWS), Schwab, TD Ameritrade or other alternative clearing and custody companies. Your assets are held with those custodial firms, and not by us. We may also, at our discretion, accommodate your request to use an alternative custodian. Unlike a broker-dealer, we cannot execute securities transactions. However, with your authorization, we can direct the broker-dealer holding your account to place trades for your account.

When we act in our capacity as an investment adviser, we will do so pursuant to a written agreement with you that sets forth the investment advisory relationship and our obligations to you. When we provide you investment advice, we are acting in a fiduciary capacity under the Investment Advisers Act of 1940. We are subject to a fiduciary duty requiring that we act and provide investment advice in our clients' best interest. We also are required to provide full and fair disclosure of material facts associated with our services and investment advice. We must act to avoid conflicts of interest or disclose these conflicts to our clients. More information about our investment advisory services, fees and costs, and conflicts of interest is provided in our Form ADV, Part 2A brochure, which is available at [adviserinfo.sec.gov](http://adviserinfo.sec.gov). More information about the background and activities of your financial professional is provided in Form ADV Part 2B, which is available from your financial professional.

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

### ***Brokerage Services***

Through Kestra IS, our financial professionals can recommend and we can effect securities transactions for you, including the buying and selling of securities (including investment funds and products) that can be held in brokerage accounts custodied with our clearing firm, or through accounts held directly with the issuer or product sponsor or their affiliate. We also make available fixed index annuities.

We also offer the option to hold cash in a cash sweep vehicle in your brokerage account. In addition, the type and scope of the brokerage services we offer include a number of services related to investments in securities, including taking customer orders, executing securities transactions, and providing general information regarding your investments.

Our brokerage services include recommendations concerning whether to buy, sell, or hold securities. We will allocate partially completed trades either in a pro-rata, random fill, or other method designed to treat you and all our clients fairly and equitably over time. The commissions we charge may be higher or lower than those charged by other broker-dealers. We correct our trade errors arising from transactions in your account at our expense; however, we reserve the right to retain any gains that may arise from correcting such errors. Agency cross transactions are permitted in non-advisory accounts and take place when we cause a security to be transferred from one client account to another. We will aggregate orders for your account where aggregation is appropriate and practicable or will result in a more favorable overall execution for you. We will allocate such orders at the average price of the aggregated order. You will pay the same ticket charges on any aggregated orders that you would on non-aggregated orders. Aggregation does not benefit you when your account has trades in mutual funds, and therefore we do not aggregate trades of these securities.

Our services also include recommendations of investment strategies involving securities, which includes recommendations of account types, and rollovers or transfers of assets, such as rolling over retirement plan assets into an IRA account. In addition, our brokerage services include making available margin accounts, where you borrow against your securities account to make additional investments. The securities used as collateral on the margin loan are subject to sale if the loan becomes past due.

Some of our financial professionals engage in outside business activities through which they provide accounting, legal, tax, insurance and other services for which we are not responsible.

### ***Advisory Services***

Please refer to the applicable ADV part 2A of the RIA through which your financial professional is registered to provide advisory services for more information regarding the type and scope of services available through an investment advisory arrangement.

### ***Account Types***

In order to receive any of our brokerage services described above, you must first open an account with us. Our retail platform offers an array of account types with different features and benefits that are intended to address different needs and objectives



of our retail customers. When opening an account with us, you may choose between many different options or account types for your brokerage account, including individual and joint accounts; retirement accounts (e.g., IRA accounts); and certain specialty accounts (e.g., margin accounts) held with our clearing firm. While we will not open most directly held mutual fund account types, limiting such new accounts to NFS, we will take over as broker-dealer for an existing direct mutual fund account where we maintain a selling agreement with the mutual fund company. We do allow certain account types to be opened directly including 529 college savings plan accounts and retirement plan accounts, as well as SEP and SIMPLE IRAs. We also make available direct accounts with insurance companies for variable annuity, variable life and fixed index annuity purchases.

Our brokerage accounts offer certain cash management features, including the option to hold cash in a cash sweep vehicle. Our cash sweep vehicles allow you to hold your cash in interest-bearing money market funds (non-insured) or bank accounts insured by the Federal Deposit Insurance Corporation (FDIC). FDIC insured accounts are not available to corporate clients.

Before deciding whether to open an account with us, please discuss our account options with your financial professional to decide which account type best fits your financial goals.

### ***Our Investment Philosophy and the Risks Associated with Investing***

We are committed to helping financial professionals and clients achieve success. We work alongside your financial professional, offering them a wide range of tools, services, and support to help you meet your goals. The clients our financial professionals serve include individuals, banking or thrift institutions, pension and profit-sharing plans, charitable organizations, insurance companies, corporations, and other business organizations.

Your financial professional will take into account the potential risks, rewards, and costs associated with a recommendation, to help ensure each recommendation they make to you is in your best interest and does not place their concerns or ours ahead of yours at the time the recommendation is made.

While we do not have a firm-wide investment strategy, many of our financial professionals recommend various forms of strategic asset allocation. An investment strategy is based upon objectives you define in consultation with your financial professional. Other examples of strategies they may use include long-term buy and hold, short-term purchases, trading, short sales, margin transactions and option writing (including covered options, uncovered options or spreading strategies).

A margin transaction occurs when you borrow against your securities account to make additional investments. The securities used as collateral on the margin loan are subject to sale if the loan becomes past due. Because of the effect of the leverage of borrowing, gains or losses from the securities you purchase on margin can be magnified.

Any investment or investment strategy involves the risk of loss, which you should be prepared to bear. Examples of risks you could face are:

- *Interest rate risk:* Fluctuations in interest rates generally cause investment values to fluctuate. For example, market values of bonds typically decline when interest rates rise, because the rising rate makes the existing bond yields less attractive.
- *Market risk:* External factors independent of a security's particular underlying circumstances may impact its value. The value of a security, bond or mutual fund may drop in reaction to tangible and intangible events and conditions, such as a political or social event or an economic condition.
- *Inflation risk:* Inflation means a dollar today buys more than a dollar next year. When inflation is present, your purchasing power typically decreases at the rate of inflation.
- *Currency risk:* Overseas investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. Also known as exchange rate risk, these risks may be present in international mutual funds for example.
- *Reinvestment risk:* The risk that future proceeds from investments may be reinvested at a potentially lower rate of return is reinvestment risk. This risk primarily relates to fixed income securities.
- *Business risk:* Risks associated with a particular industry or a specific company may impact the value of investments. For example, oil-drilling companies typically have more business risk than electric companies since they depend on finding oil and then refining it efficiently before they generate a profit. An electric company generates income from customers who buy electricity regardless of economic conditions.
- *Liquidity risk:* Liquidity means the ability to readily convert an investment into cash. Assets with many purchasers are generally more liquid. For example, Treasury Bills are highly liquid, while real estate properties are less so.
- *Financial risk:* A company with excessive borrowing or that takes significant business risks to generate profit is typically at a greater risk of financial difficulty or failure.



### 1.2.1. Material Limitations

Given the wide range of our brokerage services, 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, or investments with third-party arrangements such as revenue sharing payments or mutual fund shareholder servicing fees. In addition, we do not limit our investment offerings to a select group of issuers, nor do we offer any investments issued or sponsored by us or our affiliates. Finally, we do not have any minimum account requirements, although some of the investments you can purchase through us have minimum investment requirements. Material limitations for advisory arrangements are provided in the applicable ADV 2A brochure. Notwithstanding the wide range of our brokerage services, there are certain material limitations on our services and the services of our financial professionals as described below.

**Financial Professional Limitations:** Not all our financial professionals can offer the full range of investments and services we offer. For instance, some of our financial professionals are licensed to offer solely advisory or brokerage services, whereas other financial professionals are able to offer both brokerage and advisory services. In addition, some of our financial professionals are licensed to offer only certain types of investments, such as mutual funds and variable annuities, and are unable to offer the full range of investments we make available. Some of our financial professionals offer brokerage services through us, and advisory services through a separate firm. This is a material limitation on the securities or investment strategies that your financial professional may recommend to you, and you should discuss any such limitations with your financial professional. In addition, you may research your financial professional's experience and licenses on FINRA's BrokerCheck website at [www.brokercheck.finra.org](http://www.brokercheck.finra.org) or on the SEC's website at [www.investor.gov/CRS](http://www.investor.gov/CRS).

**Investment Limitations:** While we offer a wide range of investments, including investment funds and products, there are certain types of investments we do not offer. For instance, we do not offer all mutual funds from every mutual fund company, or every type of ETF. We also do not offer every share class of a mutual fund that may be available by prospectus. Similarly, we do not offer every type of insurance product or college savings plan. This means that our financial professionals are limited to recommending only those investments that we make available. This is a material limitation on the securities or investment strategies that our financial professionals may recommend to you.

**Account Monitoring:** Unless engaged in an investment advisory capacity, our financial professionals do not monitor your account after effecting a securities transaction for you, including those investments our financial professionals recommend. While our financial professionals remain available to assist you, and may periodically review your account(s) to offer subsequent recommendations, our financial professionals do not automatically monitor your account or your investment performance after effecting a securities transaction for you. This is a material limitation on our services and the services of our financial professionals.

**Discretionary Investment Authority:** Unless engaged in an investment advisory capacity where discretion has been authorized, our financial professionals do not make investment decisions for you or manage your account on a discretionary basis. Because our financial professionals do not have discretionary investment authority, we cannot buy or sell investments in your account without first obtaining your consent. Our financial professionals may recommend investments to you, but you are responsible for making the decision whether to purchase or sell investments, and we will only do so when specifically directed by you. This is a material limitation on our services and the services of our financial professionals.

**Discounted Commissions:** The wide range of brokerage services we and our financial professionals offer you as a full-service brokerage firm is reflected in our commission and fee structure. We are not a discount brokerage firm, and do not offer similarly discounted brokerage commissions. This is a material limitation on our services.

**Custody of Accounts:** We limit what account types may be opened as well as limit which types of accounts may be held direct with the issuer of a security or their affiliate. Please see Section 1.1 "Broker-Dealer Capacity" for further information around this material limitation on our services.

### 1.3. Fees and Costs

This section provides information about the material fees and costs associated with your account, transactions, and holdings. Because our fees vary depending on the specific transaction or service provided, the information below first describes the fees and costs associated with your account, and then the fees and costs associated with transactions and investment holdings that our financial professionals may recommend.

Fees and costs associated with advisory arrangements are described in the applicable Form ADV 2A brochure. If a Kestra IS brokerage account is utilized in your advisory arrangement, your account will be subject to the fees and costs associated with a brokerage account, including transaction fees. In such an account, you will not be subject to commissions, however you will pay an advisory fee. There will also be underlying costs associated with certain packaged products that are separate from transaction charges you pay, and you will be subject to those costs as well.



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

You must first open an account with us to use our brokerage services. Our retail platform offers an array of account types with different features and benefits that are intended to address the different needs and objectives of our retail customers. When opening an account with us, you may choose between the different options or account types we make available for your brokerage account. Please see Section 1.1 “Broker-Dealer Capacity” for additional information regarding the custody of your accounts.

Depending on the type of account you open, you will pay certain fees and costs associated with your account and holdings. Unlike the transaction-based fees described below, the fees associated with your account and holdings are typically assessed annually, although some account-based fees are associated with specific transactions. Highlighted below are material fees and costs associated with your brokerage account:

**Account Maintenance Fees:** We generally charge you an annual account maintenance fee for retirement accounts custodied at NFS, our clearing broker-dealer. We also assess an annual fee for inactive accounts custodied at NFS.

**Account Transfer Fees:** We generally charge you a one-time fee to reimburse us for the costs associated with transferring your account to another broker-dealer. The account transfer fee includes fees associated with the Automated Customer Account Transfer System, commonly referred to as the ACAT fee. The fee is assessed when you initiate the transfer of your account to another broker-dealer.

**Select and Premier Access Fees:** We generally charge you an annual fee to add certain check writing, bill pay, ACH direct deposit or debit, and debit card features to your account. These types of accounts are called Select Access or Premier Access accounts depending on the features selected. Annual fees vary, but may be waived for certain account holders who elect an investment advisory arrangement through Kestra PWS.

**Margin Fees:** We generally charge you for margin services, where our clearing firm extends credit (a loan) to you for the purpose of buying securities. Margin fees, which are typically the interest associated with the margin loan, compensate our clearing firm and us for the cost and risk of lending money to you. Margin interest rates are subject to change, and will vary depending on your account balance.

**Wire Transfer Fee:** We generally charge you a one-time wire transfer fee to wire cash from your account to another account held outside our firm. The wire transfer fee will vary by account type and may be more for certain international wire transfers.

Please visit our website [www.kestrafinancial.com/disclosures/company-information](http://www.kestrafinancial.com/disclosures/company-information) for more information regarding the fees and costs assessed on a brokerage account. If you do not have access to our website, you may contact your financial professional or our home office at 844-553-7872 for additional information.

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

We are paid each time you trade in your brokerage account or make a new investment where a transaction charge is assessed. This payment is typically called a “commission,” but it may also be called a “sales charge” or a “markup.” This kind of payment presents a conflict for us because it creates an incentive to encourage you to trade more and make additional investments. The commission rate or amount varies depending on the investment and the size or amount of the transaction. You may pay a higher or lower amount than other clients pay for similar services.

Kestra IS also assesses a trade service fee as a revenue source which, in part, is used to offset various ancillary costs associated with transactions that are passed on to the firm by NFS, and are in turn passed by Kestra IS to you. Examples of these costs include trade confirmations, electronic trade confirmations, quarterly trade confirmations, prospectus and disclosure document delivery, electronic confirming prospectus, tax forms, and monthly and quarterly statements.

In addition, investments that are interests in investment companies, such as mutual funds and UITs, or products, such as college savings plans and variable insurance products, bear ongoing fees and expenses that are embedded into the cost of the investment holding. 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 variable insurance products is available in the fund or product prospectus. If you purchased these type of investments through another firm and transfer them to an account with us, you will pay ongoing fees and expenses to the investment product sponsor, or its affiliates.

Because the fees and costs vary among investments, set forth below and on the following pages is particularized fee and cost information regarding the types of transactions and investment holdings generally purchased or traded by our retail customers. More information about commission payments, including the commission schedules we use, is available from your financial professional.

#### Equities





*Characteristics:* We offer a wide range of equity securities, which give stockholders a share of ownership in a company. Before deciding to buy or sell an equity security, such as a publicly traded company, it is important for you to evaluate the risks associated with the company. As part of this evaluation, you will want to carefully review the company's relevant disclosure documents, such as its initial registration statement and prospectus in the case of an initial public offering, or its most recent audited financial statement in the case of a secondary market transaction. Stocks in public companies are registered with the SEC and in most cases, these companies are required to file reports with the SEC quarterly and annually. You may access these disclosure documents on the SEC's website [www.sec.gov](http://www.sec.gov).

*Fees and Costs:* Buying and selling equities entails fees. You will typically pay 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 security you choose to buy or sell. There is a minimum commission, and the commission may be larger on smaller trades to cover the financial professional's cost of the trade. Your commission will also increase if the transaction is larger than 2,099 shares of an NYSE/listed security. Our transaction charges may be higher or lower than other firms offering comparable services.

## **Bonds**

*Characteristics:* We offer 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 the 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, a 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 a 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 secondary markets, the bond's price may be lower than the face value, which is referred to as a "discount," or higher than the face value, which is referred to as a "premium." If the bond is priced at a discount, the investor will receive a higher interest yield (return) as a result of paying less than the face value. On the other hand, if the bond is priced at a premium, the investor will receive a lower interest yield (return) as a result of paying more than the 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 on their daily closing prices, many bonds do not have a uniform closing price because they are traded in over-the-counter (OTC) markets or another negotiated market. 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 as the 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.

More information describing a specific bond's features and risks is available in the bond's offering document. More information about bonds in general, including pricing and issuer credit ratings, is available on FINRA's website at [www.finra.org](http://www.finra.org). In addition, more information about government bonds is available on the Municipal Securities Rulemaking Board's (MSRB) website at [www.msrb.org](http://www.msrb.org).

*Fees and Costs:* You will typically pay a "markup" as a transaction cost to the clearing firm 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 marks up the price. When you buy bonds through a broker-dealer on the secondary market, the bonds will have price markups. The markup thus 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. The amount of a markup/markdown charged on a bond transaction will depend on a number of factors and particular circumstances for each transaction, including the type of bond (corporate, government, or municipal), transaction size, credit quality, unit price, maturity, liquidity, and market scarcity.

With new issues of bonds, the broker-dealer's markup generally is included in the par value, so you do not pay separate transaction costs. Everyone who buys a new issue pays the same price, known as the offering price. If you are interested in a new issue of a bond, you can get an offering document describing the bond's features and risks.

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





of the profit earned by the clearing firm in marking up and marking down bond prices is shared with us for acting as the introducing broker-dealer on the transactions.

We conduct securities transactions in accordance with applicable rules and regulations and in a manner designed to treat you and other clients fairly and equitably over time. We provide disclosures to you regarding the compensation received by us and/or our representatives for these transactions. Such transactions include acting as a selling agent on a best efforts basis for new issues securities that you have purchased in your account. In this regard, we rely upon our relationship with a third-party broker-dealer named Advisors Asset Management, Inc. (AAM) to complete transactions your representative may recommend for purchase in your account. AAM is a full service dealer available to assist our financial professionals in selecting bonds, the creation of bond ladders, etc. In such transactions, we generally receive normal and customary transaction-related compensation as a selling agent. AAM pays Kestra IS compensation for order flow based upon the total amount of securities executed through those firms. Kestra IS receives a percentage of the concession charged by AAM for all our clients' brokerage transactions. The use of AAM to place trades creates a conflict of interest since we have an incentive to utilize their services. We also facilitate transactions through the bond tool offered by NFS. The bond tool through NFS a self-service tool for financial professionals to utilize in the selection and execution of fixed income trades.

### **Options**

*Characteristics:* We offer option contracts for you to 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. Option contracts may also be traded on certain European markets. 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 asset, the expiration date, the exercise price, and whether the option is a call or put. Many securities that are publicly traded in the United States have put or call options contracts, which are available for trading on an exchange in the United States. Equity options, for example, are designated by reference to the issuer of the underlying security, the expiration month or expiration date of the option, and the option's exercise price and type (put or call).

Prior to buying or selling options, you will receive a copy of the "Characteristics & Risks of Standardized Options," also known as the options disclosure document (ODD). Investors should read a copy of the ODD prior to buying or selling an option. The ODD contains required disclosure of the characteristics and risks of standardized option contracts. The ODD is available at [www.theocc.com](http://www.theocc.com).

No certificates are issued to show your ownership of an option. You must review the confirmations and statements that you receive from us in order to confirm your positions in options as of the date of the confirmation or statement. It is very important to understand the process for exercising your rights as the holder of an option contract. You must give us instructions in accordance with our firm's procedures in order to exercise your rights; if you wish to do so, please contact your financial professional.

Not all options strategies are available through all financial professionals, nor are all clients approved for options trading. Those clients approved for options trading are generally not approved for all options trading strategies, and we limit the options strategies we make available to clients. Options for commissionable accounts may only be traded at our clearing broker-dealer, NFS. Our RIA affiliates, under limited circumstances, offer the ability to custody accounts at custodians other than NFS such as TD Ameritrade and Charles Schwab. These custodians will offer different pricing and services.

*Fees and Costs:* You will typically pay 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. 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.

### **Mutual Funds**

*Characteristics:* We offer 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 the fund's net asset value (NAV) per share plus any applicable sales charge or load, which is described below. The fund's NAV is calculated by dividing the total value of all the fund's assets, minus any liabilities such as ongoing fees and expenses (described below), by the number of shares outstanding.

It is important to read the mutual fund's prospectus carefully before investing. Each mutual fund 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 your risk tolerance and time horizon, the mutual fund's investment objective, the underlying securities in the fund, 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 track record, the portfolio manager's experience and tenure with the fund, and the fund's underlying fees may be important factors in deciding to invest in a mutual fund.

Please refer to Sections 1.1 "Broker-Dealer Capacity" and 1.2.1 "Material Limitations" for information about accounts offered and the limitations on opening accounts directly with a mutual fund company. We do not offer every mutual fund or every share class of every mutual fund commercially available. Similarly, we do not offer every share class of the funds we do make available. When you open a brokerage account at NFS, you are limited to the products we make available through their platform. Similarly, when you open a direct mutual fund account, you are limited to the funds offered by that custodian.

*Fees and Costs – Overview:* You will typically pay a sales charge or load (commission) when you buy shares in a mutual fund. We receive a portion of this sales charge for our efforts and the efforts of our financial professionals in selling shares of the mutual fund. Most mutual funds utilize multiple share classes, with differing fees and expenses for distribution and shareholder services. Though there are many different types of share classes, we generally make available to our brokerage clients Class A and Class C shares. 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 with your financial professional.

*Fees and Costs – Share Class Distinctions:* While there are no standard definitions for these share classes, and each mutual fund defines its share classes in its prospectus, set forth below are some basic descriptions of the share classes available to you:

- Class A – This share class usually carries a front-end sales charge, which is typically assessed as a percentage of your investment. This means that a 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 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 typically have lower operating expenses compared to the other share classes of the same mutual fund that may be available to you. This means that ongoing costs will typically 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 decreases as the investment increases. These breakpoints are described in the mutual fund's prospectus.
- Class C – This share class is characterized by a level asset-based sales charge that you pay annually as a percentage of your assets. It does not have a front-end sales charge like Class A shares, but does have a contingent deferred sales charge (also known as a CDSC). This CDSC means that you pay a sales charge when you sell your mutual fund shares. The amount of the CDSC is typically assessed as a percentage of your investment, and it declines over time and eventually is eliminated the longer you hold your shares. Most Class C shares generally eliminate the CDSC after one year. Class C shares typically offer higher underlying expenses than Class A shares, which means over time, Class C shares can be more costly to invest in than Class A shares.

*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 on the total amount you choose to invest with the mutual fund company. The investment levels needed to receive these discounts are known as breakpoints. Mutual fund companies typically allow you to combine holdings with those of 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 your mutual fund purchase with your existing investment 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" (LOI).

*Fees and Costs – Ongoing Fees and Expenses:* In addition to the 12b-1 fees described above, mutual funds typically also deduct other ongoing fees and expenses, such as management fees or servicing fees, from fund assets. These are ongoing fees and expenses that are typically used to pay for the mutual fund's continued 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, and recordkeeping expenses as well as to finance distribution activities.



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.

### **Closed-End Funds**

*Characteristics:* We offer a wide range of closed-end funds, including interval funds, from many different fund companies. It is important to read the fund's prospectus carefully before investing. Each closed-end fund prospectus contains important information that will help you make an informed decision about an investment in a closed-end fund. In deciding whether to invest in a closed-end fund, you should consider several different factors, including the fund's investment objective, investment strategies and risks, the investment adviser responsible for the management of the fund's assets, and the fees and expenses associated with an investment in a particular closed-end fund.

Similar to mutual funds, closed-end funds are pooled investment vehicles. However, there are some important differences between these types of funds. Unlike mutual funds, most traditional closed-end funds do not continuously offer their shares for sale. Instead, such 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 trades 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 on 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 fund's offering has ceased. Liquidity events include listing the fund's shares on a secondary trading market and liquidation.

Unlike mutual funds, closed-end fund shares are not redeemable, which means that the 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 on the fund's NAV. In order to operate as an interval fund, the fund must offer to repurchase its shares at regular intervals every three, six, or twelve months, as disclosed in the fund's prospectus. The price that interval fund shareholders receive on a repurchase will be based on 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:* You will typically pay a sales charge when you buy shares in a closed-end fund's public offering, or a commission if you buy and 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 fund you choose to buy or sell. 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. 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 interval fund, and include marketing and advertising expenses. These ongoing fees and expenses, which are reflected in the fund's overall expense ratio, are typically used to pay for the fund's continued operations, such as paying the fund's investment manager, accounting and auditing expenses, legal expenses, and recordkeeping 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.

### **Exchange-Traded Funds**

*Characteristics:* We offer a wide range of exchange-traded funds (ETFs). ETFs are investment funds that are listed for trading on a national securities exchange and can be bought and sold by prospectus 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 fund's shares trade on a secondary market and may trade at prices higher or lower than the fund's NAV.



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:* 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 amount of the ETF you choose to buy or sell. This commission is a one-time fixed fee.

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, and recordkeeping expenses. 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 portfolio management and security selection. However, this is not always the case as there is a wide variety of ETFs available with different underlying management strategies. 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. We receive payments, called third-party payments or revenue sharing, from the legitimate profits of the ETF’s investment adviser.

### **Unit Investment Trusts**

*Characteristics:* We offer a wide range of unit investment trusts (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 generally speaking, they have a maturity date that is between 15 to 24 months from the initial offering date.

At the UIT’s maturity, an investor typically has three options. One is to receive the proceeds based on the value of the investment. An investor could also roll over into a newly issued UIT. Another option that may be available to investors in limited circumstances is to receive proportionate shares of the securities held in the 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 prospectus.

*Fees and Costs:* 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. 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 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. Please read the prospectus carefully to understand how the fees and costs are structured.

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. If specific sales volumes are met, we will receive a portion of these fees and expenses, generally referred to as third-party payments, or revenue sharing.

### **Alternative Investments**

*Characteristics, Fees, and Costs:* We offer a variety of alternative investments including but not limited to real estate, private debt, private equity, hedge funds and managed futures products. Some of these products are not traded on public exchanges, are illiquid and present unique risks that involve a greater risk to the principal investment than traditional investments such as stocks, bonds and mutual funds. Investors should carefully review the applicable offering memorandum or prospectus for a description of the material risks and costs associated with these products. Alternative investments are typically designed for higher net worth investors seeking to diversify a portfolio through exposure to the underlying asset class, such as real estate or



other assets less correlated to the equity market. Some alternative investments are only available for purchase by accredited or qualified investors meeting minimum net worth and income requirements.

We offer both publicly traded alternative investments, which are typically listed for trading on a national securities exchange, and non-traded alternative investments, which are not listed on a public exchange. While publicly traded alternative investments can be bought and sold on a secondary trading market, non-traded alternative investments cannot be bought or sold readily in a secondary trading market and are typically only available for purchase when the sponsor of the offering is selling shares. While the market price for shares of traded alternative investments is readily available, that is not the case for some shares of non-traded alternative investments. Shares of non-traded alternative investments are considered to be illiquid investments because you may not be able to sell your shares readily. Also, in the case of non-traded alternative investments with distributions, distribution yields may come from offering proceeds or borrowings rather than from rental or other income sources, reducing the amount available to invest in other assets. The interests of portfolio managers, who receive fees from the portfolio for managing and assisting with asset acquisitions, can conflict with the interests of the shareholders of the non-traded alternative investments. Additionally, certain product types may lack portfolio transparency when compared to their publicly traded counterparts. We limit our offering of publicly traded alternative investments to those available through our clearing firm and in some cases based on performance and expense. We limit our offering of non-traded alternative investments to those approved by our investment committee. Your financial professional can provide more detail as to the fees and costs of any specific offering we make available.

### **College Savings Plans**

*Characteristics:* We offer various college savings plans, which include state-sponsored 529 plans. 529 plans are tax-advantaged 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: college savings plans and prepaid tuition plans. College 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. Additional state income tax benefits may be available depending on the plan to which you contribute and the state in which you live. Be sure to discuss this consideration with your financial professional. College 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 plans. The remainder of this disclosure discusses college savings plans.

College 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 college savings plan will equal the amount necessary for future education expenses. Although similar to mutual funds in certain ways, college savings plans are issued by state governments, and are not directly regulated or registered under the federal securities laws. An important aspect of investing in college savings plans is to read the offering document (often called a program description or "official statement") carefully before investing. Each program description contains important information that will help you make an informed decision about an investment in a college savings plan. In deciding whether to invest in a college savings plan, you should consider several different factors, including each investment option's past performance, investment objective, investment strategy 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.

*Fees and Costs:* You will typically pay a sales charge when you purchase a college savings plan. We receive a portion of this sales charge for the sales and related services we provide to the primary distributor of the college savings plan. Most college 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 college savings plan share classes, we offer Class A and Class C, depending on the time horizon you provide to your financial professional. 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. The amount of time you expect to hold your investment in a college savings plan may play an important role in determining which share class is most appropriate for you since you will pay fees and expenses during the holding period. You should discuss this consideration with your financial professional.

While there are no standard definitions for these share classes, and each college savings plan defines its share classes in its offering document, following are some basic descriptions:

- Class A – This share class usually carries a front-end sales charge, which is typically assessed as a percentage of each contribution. The net amount of your contribution after the deduction of the sales charge is invested in shares of the college savings plan investment option(s) that you select. Class A shares typically have lower operating expenses





compared to the other share classes of the same investment. This means that ongoing costs will typically be lower than ongoing costs associated with other share classes of the same investment. Many college savings plans also offer breakpoint discounts for large investments in Class A shares, which means that the front-end sales charge decreases as the investment increases. These breakpoints are described in the college savings plan's offering document.

**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. This share class does not have a front-end sales charge like Class A shares, but does have a back-end or contingent deferred sales charge (CDSC). The 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, and is typically eliminated after a period of time (usually one year). Class C shares typically have higher underlying expenses than Class A shares, which means Class C shares are more costly to invest in than Class A shares over time.

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

- **Program Management Fee** – College 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 college 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 college 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 college savings plan's investment options. More information on the mutual funds that underlie the plan's investment options is available in the college 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.

### **Variable Insurance and Fixed Index Annuities**

*Characteristics:* We offer variable annuities, fixed index annuities, and variable life insurance policies (variable products). These products are issued by different insurance companies and will be in the form of a contract or policy between you and the insurance company. Not all financial professionals offer variable insurance products or fixed indexed annuities. There are differences in the features, benefits, fees and costs of insurance products, and in the minimum and maximum premium amounts of the products. Information about the particular features, benefits, fees and costs for a specific product can be found in the prospectus, private placement memorandum or the Contract Summary/Statement of Understanding for that product. You will receive a copy of the prospectus, private placement memorandum or Contract Summary/Statement of Understanding for the product that your financial professional recommends to you.

Variable and fixed index annuities can help with saving for retirement. Funds invested in these 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 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 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 annuities offer additional features and guarantees, available as options or riders. Guarantees are subject to the claims paying ability of the issuing insurance company.

Variable life insurance provides life insurance protection (i.e., a death benefit) and also allows you to build up a cash value that can grow tax-deferred. Most variable life insurance policies allow you to take out loans against your cash value and to 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 annuity or variable life insurance product, your insurance premium contributions (net of any fees and charges deducted from premiums) are invested in the underlying investments called sub-accounts the performance of these sub-accounts determines the return within the product. Fixed index annuities are general account obligations of the insurance company and the amount the insurance company credits you is tied to an index or indices that you select. The value of your investment – usually referred to as your cash value – will fluctuate as the values of the underlying sub-accounts increase or decrease. In the case of fixed index annuities, your value will be tied to the index or indices selected subject to caps and participation rates.

Most insurance companies impose a minimum initial premium. In the case of variable life insurance, you will likely 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. In some products, you can lose the money you invest in variable products, including potential loss of 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. Read the prospectus, private placement memorandum or Contract Summary/Statement of Understanding to understand if your contract offers any market loss protections.

*Fees and Costs – Premium Payment Deductions:* In the case of 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 fixed index annuities, fees are included in the limits to upside market participation known as cap rates or participation rates in exchange for downside protection. In the case of variable life products, 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. This surrender charge and the surrender period are described in the product prospectus, private placement memorandum or Contract Summary/Statement of Understanding. Surrender charge periods vary by variable product, but are generally around six to eight years for variable and fixed index annuities, even though they sometimes may range up to 15 years on some variable life insurance policies. The surrender charges also vary by variable product, and decrease over the duration of the surrender charge period, with the higher surrender charges applying to surrenders and withdrawals made at the beginning of the surrender charge period, and the lower surrender charges applying to surrenders and withdrawals made toward the end of the surrender charge period. Tax penalties can also apply to surrenders or withdrawals from annuities made before age 59½.

*Fees and Costs – Ongoing Fees and Expenses:* Insurance companies issuing variable annuity and variable life policies deduct fees and expenses from your cash value to cover fees and expenses. These ongoing fees and expenses commonly include mortality and expense (M&E) risk fees, cost of insurance fees (assessed under variable life insurance policies), administration fees, transaction fees, and fees associated with certain optional riders. The 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 amount 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 is typically calculated by applying a rate based on your underwriting classification to the "net amount at risk" (the difference between your product'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 riders will be deducted from your cash value. For fixed index annuities, the fees are calculated into the cap rates and participation rates. Cap rates can change over the time you own the contract. See the Contract Summary/Statement of Understanding to understand when changes will take place.

In addition, you will indirectly pay the ongoing fees and expenses for the sub-accounts or indices that are the underlying investment options for your 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 the sub-account's or indices' 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.

*Fees and Costs – Our Commissions:* When you purchase an insurance 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 the case of variable products. Fixed index annuities may not have a stated fee but the caps and participation rate in the index you select compensates the insurance company and the agent. 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 related to the purchase of a variable product. We share a portion of this commission with your financial professional. Insurance commissions we receive vary based on the variable product and insurance company, and we receive higher commissions for some types of variable products than for others, which creates a conflict of interest for us. In addition, in the case of life insurance, the commissions may vary between initial premium payments and subsequent premium payments.

*Fees and Costs – Marketing Expenses and Allowances:* Some insurance companies also pay us a marketing allowance for our marketing activities on their behalf. The marketing allowances are usually calculated as a percentage of new sales (premiums paid by our retail customers), a percentage of the cash value in variable products held by our retail customers, or both. You do not pay these marketing expenses directly. However, the marketing expenses are built into the pricing of the variable product, so you indirectly pay for the cost of the marketing expenses, such as training and education programs for our financial professionals sponsored by the insurance company and their wholesalers. Not all of the insurers on our retail platform make these payments to us.

*Insurance Sales by Financial Professionals:* Many of our financial professionals are licensed to sell fixed life, health, disability and other insurance products. When you purchase products other than variable annuities, variable life insurance and fixed index annuities through your financial professional, your financial professional and not our companies are responsible for these recommendations and transactions.

## **2. Conflicts of Interest**

We have identified certain conflicts of interest (conflicts) that relate to the recommendations we and our financial professionals make. A conflict arises when an economic benefit incentivizes either us or a financial professional to put our interests and/or the interests of the financial professional ahead of the interests of a retail customer. Some of these conflicts exist between retail customers and both our firm and financial professionals, while others exist between retail customers and our firm alone or between retail customers and financial professionals alone. The section below discloses material facts relating to these conflicts so that you are able to make an informed decision regarding any recommendation a financial professional provides you. Where a conflict is unique to an advisory arrangement, it is provided in the applicable Form ADV 2A.

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

Conflicts between retail customers and both our firm and financial professionals may be caused by a variety of arrangements, including the role we play in a transaction, compensation arrangements, or trading arrangements. The material facts relating to these conflicts are as follows:

- We are paid each time you trade in your brokerage account or make a new investment. We also pay our financial professionals a portion of the transaction-based payments that we receive. These transaction-based payments, usually called commissions, incentivize us and your financial professional to encourage you to trade more and purchase additional investments that result in additional revenue for our firm and your financial professional.
- For some investments you purchase based on our recommendation, we receive payments from a third-party that are in addition to the transaction-based payments described above. This is typically the case when you purchase mutual funds, college savings plans, and variable products. For example, certain issuers make ongoing payments to us based on invested assets (and not just new investments), such as 12b-1 fees, shareholder servicing fees or trail compensation. These third-party payments are described in further detail in the prospectus or offering materials for the investment, which will be made available to you in connection with any purchase. All of these third-party payments incentivize us and your financial professional to sell you or recommend you hold investments that entail these payments rather than investments that do not entail these payments or entail comparatively lower payments.
- Some investments, such as mutual funds, college savings plans, and variable annuities, offer multiple share classes, and depending on the share class in which you are invested, we may earn higher commissions, ongoing payments and/or other compensation. These comparatively higher commissions, ongoing payments and other compensation incentivize us and your financial professional to sell you or recommend 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 issuers have multi-share class structures, the lowest-cost share classes may not be available to retail investors due to high minimum investment amounts or account type requirements (e.g., a retirement account or an advisory account).

To help mitigate this conflict, we review our product shelf periodically to identify and eliminate outliers in product cost and compensation. The streamlining of the product shelf helps eliminate potential conflicts of interest that could arise from large variations in compensation, as well as address our obligation to ensure expenses and costs of recommended products are reasonable. We have also limited our mutual fund product shelf to Class A and Class C mutual fund shares for non-retirement plan accounts.



- When you engage in a rollover to an IRA, we and your financial professional will receive compensation in connection with the investments you hold in your IRA account. IRA rollover recommendations incentivize us and your financial professional to encourage the purchase of investments that result in additional compensation for us and your financial professional.
- Our parent company, Kestra Financial, Inc., owns other investment advisers, insurance agencies, and service providers (Kestra Affiliates). When a firm is acquired by Kestra Financial, Inc. or an affiliated company, production incentives are typically put into place in order to create an incentive to maximize earnings. When such an acquired firm's financial professionals are registered with us or one of our affiliates, the financial professionals have an incentive to both maximize their production and to recommend the products and services of their affiliates.
- Many of our financial professionals offer investment advisory services through a Kestra Affiliate. While you are not obligated to engage your financial professional in their capacity as an investment advisor representative, to the extent you do so, both your financial professional and our affiliate firm will receive additional compensation related to those services. This increased compensation results in a conflict of interest for both us and your financial professional as it results in increased compensation to both parties. Similarly, if our financial professionals recommend that you purchase or sell products and services of or through other Kestra Affiliates, these Kestra Affiliates, receive compensation as a result. Such a recommendation creates a conflict of interest since it would result in increased compensation to a Kestra Affiliate, and potentially your financial professional.
- Kestra IS offers a no-transaction-fee (NTF) program where the transaction charge is waived for the purchase and sale of Exchange Traded Funds (ETFs) participating in the program. Other ETFs participate in a program where the transaction charge is waived for the purchase of ETFs but not the sale. If your financial professional absorbs the transaction fees for your account, the NTF program creates a conflict of interest as it results in increased compensation to your financial professional since no transaction fee is assessed. Participating funds pay Kestra IS a rate based on the amount of assets invested in those funds and the expense ratio of the fund. As a result, we have a conflict of interest to the extent financial professionals recommend these funds, because Kestra IS will receive additional compensation. Our financial professionals do not receive any portion of the compensation paid to Kestra IS.
- NFS offers a no-transaction-fee (NTF) program where the transaction charge is waived for the purchase and sale of mutual funds participating in the program. Other mutual funds participate in a program where the transaction charge is waived for the purchase of mutual funds but not the sale. If your financial professional absorbs the transaction fees for your account, the NTF program creates a conflict of interest as it results in increased compensation to your financial professional since no transaction fee is assessed. Participating funds compensate NFS, which in turn compensates us based on the amount of assets invested in those funds. As a result, we have a conflict of interest to the extent financial professionals recommend these funds, because we will receive additional compensation. The funds in the program also have higher expense ratios than similar funds not in the program. Thus over time, you will pay higher costs for funds in this program than you would for similar non-NTF funds subject to transaction charges. Our financial professionals do not receive any portion of the compensation paid to Kestra IS.
- Kestra IS sponsors a Free Ticket Program through which we provide clients the opportunity to purchase or exchange select mutual funds and ETFs at NFS at no cost to the financial professional or client. There are trading fees on the sale of these same funds. If your financial professional absorbs the transaction fees for your account, the Free Ticket Program creates a conflict of interest as it results in increased compensation to your financial professional since no transaction fee is assessed. We are able to provide the Free Ticket Program because certain fund families have agreed to pay or reimburse Kestra IS for trading costs associated with their funds. This compensation is not shared with your financial professional. Kestra IS supports the trade costs for certain vendors in the program, which incentivizes the firm to recommend those vendors for whom trade costs are not supported. Some participants of the Free Ticket Program may also be Select Providers (see Section 2.2 for more information on Select Providers).
- In order to help cover or defray the costs of transitioning from another firm to Kestra IS, Kestra AS, or Kestra PWS, our financial professionals may be eligible to receive various forms and amounts of transition assistance. Such transition assistance may include loans, rent, technology services and equipment, legal expenses, administrative support, termination fees associated with moving accounts and regulatory services, payments based on production, reimbursement of fees, free or reduced-cost marketing materials, attendance at conferences and events, and access to preferred pricing. We also receive compensation from our custodians to offset the cost of transitioning assets. NFS will pay Kestra IS 6 basis points on all eligible new assets transferred to their custody within the first 120 days a



financial professional joins our firm. This revenue is not shared uniformly with all who join our firm, but to the extent it is shared, the conflict of interest to refer assets to NFS is also shared with those recipients.

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

Conflicts between retail customers and our firm may be caused by a variety of arrangements, including the role we play in a transaction, compensation arrangements, trading arrangements, or customer-specific arrangements. We lay out a number of these conflicts in greater detail in the fees and costs section of this disclosure guide. The material facts relating to these conflicts are as follows:

- We make available hundreds of different products to our financial professionals and customers. Our financial professionals are free to choose what products they recommend to customers from among these many products. Of these product vendors, a select number of providers ("Select Providers") are given increased access to our financial professionals for the purpose of providing them and us both financial and non-financial support such as marketing, education, and product support. Many issuers or their affiliates also make payments to us to cover the costs associated with certain educational conferences or training seminars we host for our financial professionals. These payments are flat and are not tied to total sales or customer assets. These flat payments incentivize us to sell you or recommend you hold investments issued by issuers that make these flat payments rather than investments of issuers that do not make these payments or make comparatively lower payments.

We receive more compensation for the sale of products of Select Providers than for the products of other providers we sell and thus have a financial incentive to sell the products of Select Providers. The amounts and forms of compensation we receive from Select Providers vary based on a number of factors including level of past sales, prospective future sales, and the types of service and access to distribution we provide. These payments are made from the resources of the investment adviser or distributor (or one of their affiliates) in the case of mutual fund Select Providers, and from the resources of the insurance company (or its affiliate) in the case of variable annuities, group annuities, and variable life products. These payments are in addition to the sales charges, service fees, redemption fees, deferred sales charges and other fees and charges described in the prospectus fee tables or offering documents of the various products.

Please visit our website [www.kestrafinancial.com/disclosures/company-information](http://www.kestrafinancial.com/disclosures/company-information) for more information regarding the companies and amounts and types of compensation we receive. If you do not have access to our website, you may contact your financial professional or our home office at 844-553-7872 for additional information.

- Some of our financial professionals, in their individual capacities as insurance agents may recommend you purchase fixed or general account insurance products or annuities on a commission basis. We do not oversee and are not responsible for these insurance sales (other than fixed index annuities), however, we do refer our financial professionals to certain third party broker general agencies (BGAs) and Kestra IS, which is also an insurance agency, receives compensation from the BGAs if our financial professionals use the services of these BGAs. Our financial professionals are not required to utilize the services of any BGA to whom we refer business for fixed insurance sales we do not oversee.
- Through the custodial agreement between Kestra IS and NFS, NFS remits fees to Kestra IS for each transaction fee mutual fund position held in custody at NFS, and these fees increase as the amount of all of your positions, not limited to transaction fee positions, held in the custody of NFS increases. This compensation creates a conflict of interest as we are incentivized to hold more of your assets at NFS. Your financial professional does not receive any portion of the fees paid to Kestra IS for the custody of your assets.
- NFS charges Kestra IS for products and services, and Kestra IS sets its own price for such services, including administrative services and transaction charges. Kestra IS also receives execution price discounts from NFS, which increase with trade volume. Kestra IS typically charges clients more for these services than it pays to NFS, and the markups vary by product type. This practice creates a conflict of interest since we have a financial incentive to recommend Kestra IS and Kestra IS will earn substantial additional compensation for the services it provides. Financial professionals do not benefit directly from this arrangement. These discounts are not shared with our financial professionals or their clients.
- Kestra IS sets the rate of margin and cash debit interest and is credited any amount over WSJ Prime + 1% of the interest assessed on margin accounts by NFS. This credit creates a conflict of interest since our affiliated broker-dealer receives additional compensation beyond the advisory fees collected on accounts custodied at NFS, which provides an incentive to place business with that custodian.



- When you establish an account with Kestra IS on the NFS platform, you are required to select a bank sweep option or money market mutual fund in which the cash in your account will be held. The FDIC bank deposit sweep program is the default option for cash contributed to non-entity (individual) accounts and we receive more from NFS for assets held in that sweep program than we do for assets placed into a money market fund. Entities are not eligible to participate in the bank deposit sweep program. The bank sweep account will have a yield that will vary based on prevailing interest rates. Kestra IS has the ability to dictate what portion of the yield (interest rate paid) on the bank sweep accounts it will retain. Kestra IS's ability to adjust the yield creates a conflict of interest since the lower the portion of the yield paid to you, the more Kestra IS earns. Our financial professionals do not receive any portion of the bank sweep compensation paid to Kestra IS.
- In addition to a bank sweep deposit option, Kestra IS makes available a limited number of money market funds that you may elect to have serve as the cash sweep vehicle for your brokerage account. Pursuant to Kestra IS's clearing agreement with NFS, NFS remits to Kestra IS the amount of 12b-1 fees and shareholding servicing fees for money market mutual funds affiliated with or specified by NFS in amounts set forth in the prospectus or other offering document for such funds, plus ten basis points of amounts invested in such funds. The higher the 12b-1 fees paid by the money market mutual fund, the lower the yield on cash in your account. This revenue sharing creates a conflict of interest as the increased revenue generated from the default money market funds is paid to us. Because we receive and retain these amounts, we have an incentive to recommend a brokerage account offering sweep money market funds paying 12b-1 fees, which in turn will negatively impact the amount you earn on cash in your account. Our financial professionals do not receive any portion of the money market compensation paid to Kestra IS.

Kestra IS does not make available other share classes of the sweep money market funds, including those that do not pay 12b-1 fees; however, you may purchase other money market funds, including those that do not pay 12b-1 fees, and move assets from the money market fund or bank deposit account that serves as your cash sweep vehicle into such other funds. While you are not obligated to maintain your assets in the core sweep money market fund or bank deposit sweep account you select, cash in your brokerage account will be placed in the sweep option you select by default and remain in that sweep option until the funds are invested elsewhere or you withdraw the cash from your account.

- Kestra IS receives a business development credit from NFS if asset growth targets are met, which creates an incentive for us to recommend assets be placed with our primary custodian.
- NFS assesses IRA accounts an annual fee which is shared with Kestra IS in an increasing proportion as the number of total accounts custodied at NFS increases. This payment arrangement with Kestra IS serves as an incentive to open accounts with our primary custodian. No portion of this fee is shared with our financial professionals.
- We effect transactions for your account through NFS, which refers us business. This creates a conflict of interest since we have an incentive to increase referrals to our company. Commissions and fees may be higher at NFS than what is charged by other broker-dealers.

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

Conflicts between retail customers and our financial professionals may be caused by a variety of arrangements, including compensation arrangements, retail customer-specific arrangements, or outside business activities. The material facts relating to these conflicts are as follows:

- We pay our financial professionals a percentage of the fees and commissions Kestra IS, Kestra AS or Kestra PWS charge or receive. Our financial professionals receive a higher percentage of the amounts we receive as their production of fees and commissions increases. We will also aggregate the production of several financial professionals in the same branch or firm which can allow them to reach higher payouts more quickly than if the payout were based on individual production. The practice of providing a tiered payout and aggregation of production creates a conflict of interest as your financial professional is incentivized to increase their production to obtain higher compensation percentages and additional compensation. In addition, certain financial professionals that meet internal criteria, that include production, receive additional benefits such as practice management consulting or producer trips. Also, members of PartnersFinancial receive enhanced payouts for the placement of variable life insurance and may receive more favorable underwriting on that product line. Financial Professionals of Kestra PWS receive higher payouts on advisory services than for commissionable services, which can serve as an incentive to recommend an advisory arrangement.
- We make loans to financial professionals which may be forgivable based on years of service with Kestra AS, Kestra IS, Kestra PWS, or our affiliates, assets under management, the amount of production with us or our affiliates or some combination of these factors. This practice creates a conflict of interest since the financial professional has a financial



incentive to recommend a client engage Kestra AS or Kestra PWS for advisory services, engage Kestra IS for brokerage services, and to recommend additional products and services in order for their loan to be forgiven.

- Some of our financial professionals participate in incentive trips and receive other forms of non-cash compensation such as being taken to lunch or to a sporting event by a wholesaler. Typically these incentives are based on the amount of their sales and services through Kestra IS, Kestra AS, Kestra PWS, non-affiliated marketing groups, or product manufacturers. To the extent your financial professional participates in an incentive trip or receives other forms of non-cash compensation, a conflict of interest exists in connection with the recommendation of products and services for which they receive these additional economic benefits.
- We allow financial professionals to receive marketing reimbursements from product providers to help defray marketing expenses. There is no requirement or expectation that financial professionals refer clients to or place assets with such providers, however, this compensation serves as an incentive to recommend the products and services of those vendors from whom they receive such compensation.
- Financial professionals are permitted to give or receive gifts of up to \$100 for per person or company per year.
- Some of our financial professionals engage in outside business activities. If your financial professional engages in any outside business activities, these activities can incentivize your financial professional to spend more time on the outside business activity rather than on his or her brokerage or advisory relationship with you. You may research outside business activities your financial professional has disclosed on FINRA's BrokerCheck website at [brokercheck.finra.org](http://brokercheck.finra.org) or on the SEC's website at [investor.gov/CRS](http://investor.gov/CRS).

In addition, many of our financial professionals may cross sell their outside business activities to you. For example, many of our financial professionals also act as insurance agents independent from our companies. To the extent your financial professional provides fixed insurance products or services to you (other than fixed indexed annuities), he or she does so outside of our firm and supervision. Although we are an insurance agency, we do not sell fixed or general account life insurance products or annuities other than certain fixed indexed annuities and broker dealer offered fixed annuities. Some of our financial professionals, in their individual capacities as insurance agents may recommend you purchase fixed or general account insurance products or annuities on a commission basis. Similarly, some of our financial professionals are also involved in other business activities, such as accounting, legal, tax, and other non-investment services for which we are not responsible. We do not provide legal or tax advice and you should consult your own attorney or tax advisor for guidance relative to your specific circumstances. Unless otherwise provided by applicable law and the particular circumstances, the services provided by our financial professionals outside of our company will not be subject to a best interest standard.

