



Welcome to  
Prospera Financial Service

Thank you for selecting a Prospera Financial Professional and for opening your account(s) with us. We appreciate your business and want to take this opportunity to share this important information with you.

As an investor, you should understand the roles of your Financial Professional, Prospera and the other firms we do business with. This information is provided to inform you about the policies and procedures employed by Prospera as well as other important facts about your account(s). Please take the time to read and understand this information.

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## **Your Financial Professional, Prospera Financial Services and You**

This is your Investment Team. Each member of your team, including you as our client, has an important role to play in building a successful relationship that will ultimately work toward the achievement of your financial goals.

### ***Our Responsibility***

We will always put your interests first. It is only by helping you to succeed that we succeed.

We will work to help you understand your investments. Your Financial Professional is available to answer any questions you have about your account or the investments in your account.

We will support your Financial Professional with the full resources of our firm. We support them so that they can help you achieve your financial goals.

We will provide you with accurate and timely information about your account. Your financial transactions, as well as the status of your account, are always available to you through your scheduled statements, online at [www.prosperafinancial.com](http://www.prosperafinancial.com) under “My Accounts,” or through your Financial Professional at your request.

We will provide you with information regarding our policies on how we treat the personal information you share with us. We do not sell your personal information to anyone. Please see the Privacy Policy provided in this brochure for more information.

We will strive to meet and exceed your expectations as our client, and to uphold the trust you have put in us. We respect your privacy, and we take your financial concerns very seriously.

We will provide you with courteous service. Your Financial Professional is your first point of contact when you have questions or need assistance with financial transactions.

We will use care to select knowledgeable and experienced Financial Professionals. Prospera Financial Professionals are appropriately licensed and registered to make investment recommendations and perform transactions on your behalf.

We, through your Financial Professional, will provide you with investment recommendations based on your personal goals, your financial information and your preferences. Individual investment performance cannot be guaranteed due to market, industry or other conditions and circumstances beyond the control of your Financial Professional and Prospera.

We will inform you of all costs relating to your account(s) and your investment transactions. If you have any questions about your fees, please contact your Financial Professional.

We will work conscientiously to resolve any errors or complaints regarding your account(s). Prospera and your Financial Professional take pride in our commitment to the highest standards of customer service.

## ***Your Responsibility***

Provide your Financial Professional with all the information that is relevant to your financial status, your investment preferences and your financial goals. This includes but is not limited to: your current and previous financial data, your investment time horizon and your level of risk tolerance. Be sure to update this information as changes occur. **This information is critical** because your personal and financial information serves as the basis upon which your Financial Professional makes your investment recommendations.

Carefully review all your transaction confirmations and account statements immediately. If you have a question or discover an error, promptly notify your Financial Professional.

Protect the security of your account by keeping your online user name and password secure. Do not give this information to anyone you do not wish to have access to your account. No one with Prospera will ever ask you for this information.

Make certain that you understand your investments and how they may perform under various market conditions. Your Financial Professional is available to review these facts with you at any time.

Meet regularly, at least annually, with your Financial Professional to review your financial information and your investment portfolio.

Investing is serious business. Communicating regularly is the key to helping your Financial Professional make appropriate investment recommendations and assist you in reaching your financial goals.

## **About Your Account**

### ***Our Clearing Firm - First Clearing, LLC***

While your Prospera Financial Professional will be responsible for servicing you and your account, First Clearing, LLC (“First Clearing”) also plays an integral role in the services we provide. First Clearing’s responsibilities include:

- Handling the delivery and receipt of securities purchased or sold in your account;
- Processing and executing your transactions;
- Performing centralized cashiering, bookkeeping, and execution functions for your account;
- Maintaining custody of all your securities and funds once they are in your account;
- Receiving and distributing dividends and other distributions to you;
- Extending credit for margin accounts; and
- Preparing your account statements.

### ***Privacy Policy***

**Safeguarding Your Private Information.** Prospera and its Financial Professionals are committed to safeguarding confidential client information. Prospera holds all personal information provided by clients in the strictest confidence and it is the objective of Prospera to protect the privacy of you and all of our clients.

**Why We Collect and How We Use Information.** To conduct regular business, administer, manage, service, and provide related services for client accounts, it is necessary for Prospera to collect and provide access to customer information within the firm and to nonaffiliated companies with whom Prospera has entered into servicing agreements. To provide the utmost service, Prospera will collect and may disclose the information below regarding customers and former customers, as necessary, to companies to perform certain services on Prospera's behalf:

- Information Prospera receives from the client on applications (name, social security number, address, assets, etc.)
- Information about the client's transactions with Prospera or others (account information, payment history, parties to transactions, etc.)
- Information concerning account transactions
- Information about a client's financial products with Prospera

### ***Customer Identity Verification***

Under the USA PATRIOT ACT, Prospera is obligated to verify the identity of each customer opening a new account. We will ask for your name, address, date of birth, and other personal information that will allow us to identify you, including asking to see your driver's license or other identifying documentation.

**Please understand** that if we are unable to verify the identity of all the owners of any account within a reasonable time, we may, at any time, at our sole discretion, without providing advance notice, close the account.

### ***Sharing Information with Other Companies Permitted or Required Under Law***

Prospera shares non-public information to service client accounts. We may also provide customer information outside of the firm as permitted or required by law.

- Prospera may from time to time share client information with its affiliated company, Prospera Life & Annuity Services, Inc. ("PLA"). Due to the nature of our organization, Prospera does share resources and office space with PLA. While Prospera has implemented procedures to limit access to only those employees that need to know such information to provide services, in the normal course of business, PLA may come into contact with client personal information.
- Prospera will disclose personal information to non-affiliated investment advisers, brokers and other agents, including First Clearing, Wells Fargo Advisors, investment advisor firms that are owned and operated by Prospera Financial Professionals and other financial firms with which Prospera has contracted to provide services, process transactions, and service client accounts. Prospera may also provide your information to vendors providing data processing; computer software maintenance and development; compliance and legal consulting; and other general business consulting services. Our current policy is to require these vendors to sign a nondisclosure statement agreeing to maintain the confidentiality of all non-public personal information.
- Prospera may also disclose personal information if we believe in good faith that such disclosure is required to comply with applicable laws; such as cooperating with regulators, consumer reporting agencies, or to resolve consumer disputes.

### **Disclosure of Information to Your Financial Professional.**

Prospera recognizes that you have elected to open accounts with us due to the efforts of your Financial Professional. If your Financial Professional elects to leave Prospera for another registered broker-dealer or investment advisor, Prospera will allow the Financial Professional to take your information to the new firm, subject to the requirements or limitations of applicable law. **If you do not want your Financial Professional to transfer your information from Prospera to the Financial Professional's new firm in the event he or she decides to leave Prospera for another registered broker-dealer or investment advisor, please contact us at 972-581-3000.**

**Former Customers.** Even if we cease to provide you with financial products or services, our Privacy Policy will continue to apply to you and we will continue to treat your nonpublic personal information with strict confidentiality.

### ***Payment for Order Flow***

Under SEC Rule 606 (formerly, Rule 11Ac1-6), broker-dealers that route customer orders in equity and option securities are required to make publicly available quarterly reports that, among other things, identify the venues to which customer orders are routed for execution. In addition, broker-dealers are required to disclose to customers, upon written request, the venues to which their individual orders were routed.

Prospera directs all of its orders to First Clearing for routing and execution and does not receive compensation for doing so.

To view First Clearing's 606 (formerly, Rule 11Ac1-6) statistical report of its order routing practices, please go to <http://www.firstclearingllc.com/Report/FirstClearing/default.html>.

### ***Margin Disclosure Statement***

**Please Note: The information contained on this page only applies if you elected to have margin on your account.**

On behalf of our clearing firm, First Clearing, we are furnishing this information to you to provide some basic facts about purchasing securities on margin, and to alert you to the risks involved with trading securities in a margin account. Before trading stocks on margin, you should carefully review the margin agreement provided to you by your Financial Professional and discuss any questions or concerns you may have regarding your margin account(s).

When you purchase securities through Prospera, you may pay for the securities in full or you may borrow part of the purchase price from First Clearing. If you choose to borrow funds, you will open a margin account with Prospera. The securities purchased are First Clearing's collateral for the loan to you. If the securities in your account decline in value, so does the value of the collateral supporting your loan. As a result, First Clearing or Prospera can take action, such as issue a margin call and/or sell securities or other assets in any of your accounts held with the member, in order to maintain the required equity in the account.

It is important that you fully understand the risks involved in trading securities on margin. These risks include the following:

**You can lose more funds than you deposit in the margin account.** A decline in the value of securities that are purchased on margin may require you to provide additional funds to First Clearing, the firm that has made the loan, to avoid the forced sale of those securities or other securities or assets in your account(s).

**First Clearing or Prospera can force the sale of securities or other assets in your account(s).** If the equity in your account falls below the maintenance margin requirements or First Clearing's higher "house" requirements, First Clearing can sell the securities or other assets in any of your accounts held at the firm to cover the margin deficiency. You also will be responsible for any shortfall in the account after such a sale.

**First Clearing or Prospera can sell your securities or other assets without contacting you.** Some investors mistakenly believe that a firm must contact them for a margin call to be valid, and that the brokerage firm cannot liquidate securities or other assets in their account to meet the call unless the brokerage firm has contacted them first. That is not the case. Most firms will attempt to notify their customers of margin calls, but they are not required to do so. However, even if a firm has contacted a customer and provided a specific date by which the customer can meet a margin call, the firm can still take necessary steps to protect its financial interests, including immediately selling the securities without notice to you.

**You are not entitled to choose which securities or other assets in your account(s) are liquidated or sold to meet a margin call.** Because the securities are collateral for the margin loan, First Clearing or Prospera has the right to decide which security to sell in order to protect its interests.

**First Clearing or Prospera can increase its "house" maintenance margin requirements at any time and is not required to provide you advance written notice.** These changes in firm policy often take effect immediately and may result in the issuance of a maintenance margin call. Your failure to satisfy the call may cause First Clearing or Prospera to liquidate or sell securities in your account(s).

**You are not entitled to an extension of time on a margin call.** While an extension of time to meet margin requirements may be available to customers under certain conditions, a customer does not have a right to the extension.

### ***Making Deposits to Your Account***

SEC Rules require all check instruments be made payable to the clearing firm. All checks, cashier checks or any other deposits must be made payable to our clearing firm, First Clearing LLC. Checks may not be made payable to Prospera or to your Financial Professional. Items made payable to the incorrect entity will be returned.

### ***How Your Accounts are Protected***

Prospera and First Clearing, LLC are both members of the Securities Investor Protection Corporation ("SIPC"), which was created in 1970 to protect the customers of broker/dealer firms. This SIPC coverage protects your assets in the unlikely event that Prospera or First Clearing should fail to meet its financial obligations. SIPC coverage does not protect against a decline in the market value of securities. For more information on SIPC coverage, please see the explanatory information at [www.sipc.org](http://www.sipc.org).

**Additional Insurance Coverage We're Providing to Our Clients.** Above and beyond SIPC coverage, First Clearing maintains additional insurance coverage provided through London Underwriters (led by Lloyd's of London Syndicate) ("Lloyd's"). For clients who have received the full SIPC payout limit, First Clearing's policy with Lloyd's provides additional coverage above the SIPC limits for any missing securities and cash in client investment accounts, up to a clearing firm aggregate limit of \$1 billion (including up to \$1.9 million for cash per client). In other words, the aggregate amount of all client losses covered under this policy are subject to a limit of \$1 billion, with each client covered up to \$1.9 million for cash.

**About Lloyd's of London.** Since its beginnings in the 17th century, Lloyd's of London has been a world leader in insurance markets, providing its services to businesses in a broad range of sectors. Currently, Standard & Poor's and Fitch Ratings have both rated Lloyd's credit as "A+ (Strong) Stable Outlook," and A.M. Best has given Lloyd's a credit rating of "A (Excellent) Stable Outlook." For more information about Lloyd's of London, please visit [www.Lloyds.com](http://www.Lloyds.com).

**The Limits of SIPC and Lloyd's Insurance Coverage.** Please note that the coverage provided by SIPC and Lloyd's does not protect against loss of market value of securities. All coverage is subject to the specific policy terms and conditions.

### ***Free Credit Balance***

The free credit balance available in your securities account (for the purchase of money market fund shares) will be the credit balance less:

- The proceeds of the sale of any security that has not been received by us in negotiable form; and the amount of any free credit balance in your account required by margin rules and regulations to maintain a bona fide short sale position, uncovered short option position, or pending marking to market transaction, if applicable.
- Some accounts, depending on the type of account you open, may require a minimum free credit balance before fund shares will be purchased.

Deposits to your account's free credit balance which were not transferred to us by "wire transfer" of federal funds, or for which there is an insufficient balance, may not be immediately available as a source of payment for checks presented for payment, credit card transactions, or authorized periodic debits.

### ***Transfer Fees***

Please note that when an account transfers to another financial institution, our clearing firm assesses an exit fee. This fee is in line with what other firms in the financial industry charge and reflects the increased costs of the transfer process.

**Full Account Liquidation.** Upon receipt of notice to liquidate holdings in any account by either you or your Financial Professional, Prospera will, in an orderly and efficient manner, proceed with the liquidation. Prospera is under no obligation to effect any transaction for your account that it believes to be improper under applicable law, rule, or regulation.

Factors that may affect the orderly and efficient manner of the liquidation of securities include the size and types of issues, liquidity of the markets, and market makers' abilities. Due to the administrative processing time needed to liquidate securities and/or communicate the instructions to FCC (especially true for large accounts) and/or conduct an accounting of specific holdings in client accounts, full liquidation requests received by Prospera are not considered market orders. Therefore, it may take several business days under normal market conditions to process full liquidation requests. During this time, your account is subject to market risk. Prospera is not responsible for market fluctuations of your account from time of notice until complete liquidation. Prospera will make all reasonable efforts to process the termination in an efficient and timely manner.

## **What Relationship and Pricing Structure is Right for You?**

No single approach suits every investor. We offer a variety of ways that you can work with your Financial Professional. Your Financial Professional can help you determine which style and accounts are most appropriate for your needs.

The client relationships we have available can be divided into two broad styles with different pricing methods: transaction-based and asset-based. You may prefer one or the other or a combination of both.

### ***Transaction-Based Account Relationships and Pricing***

In this type of account relationship, you pay for the services you request, such as buying and selling stocks, bonds and mutual funds, and trading and exercising options. Payment may be in the form of commissions or other fees for each transaction, or as a deferred sales charges or built-in expenses in products such as mutual funds, variable annuities, and other related products. You can conduct transaction-based business with your Financial Professional through investment, education savings, retirement, trust and other accounts we offer.

### ***Asset-Based Account Relationships and Pricing***

In asset-based relationships, you pay either a monthly or quarterly fee, which may cover a variety of services, rather than individual commissions on transactions. The fee is based primarily on the amount of assets in the account (and sometimes on the total amount of business a client's household conducts with their Financial Professional).

Our asset-based accounts can be divided into three distinct categories:

- Client-directed brokerage accounts,
- Discretionary portfolio management accounts, in which qualified Financial Professionals make investment decisions, and
- Investment management consulting accounts, where assets are invested in a mutual funds asset-allocation program, or where assets are managed by third-party investment managers. Financial Professionals guide clients through investor profiling, asset allocation, and ongoing consultation and evaluation.

## ***Pricing Decisions: Brokerage vs. Advisory, Transaction vs. Asset-Based***

Our responsibilities will differ depending on whether the business you conduct with your Financial Professional is brokerage or advisory. **It is important to understand that investment advisory and brokerage services are separate and distinct and that each is governed by different laws and separate contracts with you. When we act in a brokerage capacity, we do not enter into a fiduciary relationship with you, regardless of the fee structure you select. Absent special circumstances, we are not held to the same legal standards that apply when we have a fiduciary relationship with you, as applicable when we are providing investment advisory services.**

Depending on the specific type of account you have, transactions may be conducted on either a discretionary or non-discretionary basis. In a discretionary account, a Financial Professional or an outside investment manager makes the investment decisions. In a non-discretionary account, you make the investment decisions.

Our firm is registered and can act as both a broker-dealer and an investment advisor:

- When we act as brokers – executing transactions for you according to the investment decisions you make – the primary services you pay for are trading and execution, and the advice your Financial Professional provides is incidental.
- When we act as advisors in managed accounts, the primary services provided to you are your Financial Professional’s advice and/or the advice of a third-party money manager.

You may purchase many of our products and services in either transaction-based or asset-based accounts, or a combination of both.

Since the cost of doing business with us depends on your preferences and needs, it may be difficult to compare asset-based and transaction-based relationships solely on the basis of price. You may pay more or less in an asset-based program than you might otherwise pay if you purchased the services separately. Several factors affect the relative cost of an asset-based program, including:

- Size of the portfolio
- Mix of product types
- Additional administrative or management fees, if any
- Your level of trading activity
- The actual cost of the services if purchased separately

You should consider the specific features of each product and the effect on your total cost when asset-based fees are applied to certain products, such as mutual funds and unit investment trusts, which also carry built-in management and administrative fees.

## **A Message to Prospera Mutual Fund Investors**

For more information to help you to better understand the risks, rewards, costs, benefits, fees, expenses, prospectuses and other offering documents and how your Financial Professional and Prospera are compensated when you invest in mutual funds, variable annuities, and/or alternative investments, please refer to the individual investment’s prospectus or visit our website at [www.prosperafinancial.com](http://www.prosperafinancial.com) and select “Legal Information” from the home page.

## ***The Costs Associated with Investing in Mutual Funds***

All mutual funds have fees and expenses. These costs, like all investing costs, are important because they affect the return on your investment. All funds have ongoing expenses that you will pay as long as you have an investment in the fund. Many funds also require that you pay a sales commission when you buy or sell the fund. The costs of buying or selling shares of a fund, plus the annual costs you pay that are associated with operating the fund affect the return on your investment.

Mutual fund fees generally fall into two categories: “Loads” (sometimes called sales charges) and Annual Fund Operating Expenses. These fees are disclosed in the fee table in the front of a fund’s prospectus and are incurred when you buy a fund, while you own a fund, and when you sell a fund.

### ***Share Classes***

Mutual funds offer different pricing arrangements to meet the needs of different investors. Many mutual funds make this possible by offering investors various “classes” of shares. Share classes represent ownership in the same mutual fund but offer investors a choice in how to pay for the fund. Share class names vary depending on the fund. For example, a fund may offer Class A, Class B, Class C, and “no-load” shares:

**Class A shares** generally have a front-end sales charge (or front-end “load”) and lower annual expenses. This load is one way your investment consultant is compensated for helping you select a fund to aid your investment goals. If, for example, you have \$10,000 to invest in a fund and the front-end load is 5%, you would be charged \$500, and the remaining \$9,500 would be invested in the chosen fund.

Loads decrease for larger investments. Each fund family has a “breakpoint” schedule that determines the load based on the investment amount. For example, a fund might charge a load of 5.75% for purchases under \$50,000, reduce the load to 4.5 % for purchases at or above that amount but less than \$100,000, and still further reduce or eliminate the load at other higher levels.

You may be able to qualify for a breakpoint on the basis of a single purchase, or by aggregating the amounts of more than one purchase by using a “**Letter of Intent**” or a “**Right of Accumulation**”.

A Letter of Intent is a letter you sign stating your intent to buy a certain amount of shares over a specified period of time. A **Right of Accumulation** allows you to qualify for a breakpoint with respect to a current purchase, based upon the total amount of your previous purchases, with no time limit. In either case, purchases may qualify for a breakpoint if they are made in your account or in accounts that are related or linked to your account. You may also qualify based upon purchases that are made in the same fund or in different funds that are within the same fund family. Your Financial Professional or the fund prospectus can provide additional information on ways to reduce or eliminate the load.

**Class B shares** do not have a front-end load and therefore do not have breakpoints. Class B shares do have a back-end load (a charge you pay when you sell fund shares) that declines over time until it disappears. These shares also tend to have higher annual expenses than A shares. After a specified number of years, B shares convert to A shares, and from then on you benefit from lower annual expenses.

**Class C shares**, like B shares, have no front-end load and have higher annual expenses than A shares. There generally is no backend load unless the shares are sold within the first twelve months. Unlike B shares however, C shares never convert to A shares.

While there can be benefits to owning Class B or C shares, Class A shares tend to be more appropriate for larger or longer-term investments due to their lower annual expenses and breakpoint discounts.

**No-Load Shares** do not have sales charges.

You should review a fund's share classes, as detailed in the fund prospectus, to determine and evaluate your options. Your Financial Professional can recommend the share class most suitable for you.

### ***Annual Operating Expenses***

Fund Operating Expenses include the fund's management fees, 12b-1 (distribution) fees, the cost of shareholder mailings, and other expenses. The expense ratio, shown in the fund's prospectus, helps you compare annual expenses of different funds. You do not pay operating expenses directly; rather, they are deducted from the fund's total assets.

### ***How Prospera and Your Financial Professional are Compensated***

Prospera and our Financial Professionals are paid in different ways for helping you choose mutual funds, depending on the type of fund (equity or fixed income), the amount invested, the share class purchased, the fund family, and the type of account you have. Most often, Prospera is paid by the fund family based on the fees you pay as described above. Then, a portion of that payment goes to your Financial Professional. The formula used to determine the amount of payment for your Financial Professional is the same regardless of which mutual fund you purchase.

If you purchase mutual funds in a "fee-based" account where you do not pay upfront sales charges, your Financial Professional's compensation is based on a percentage of the total assets held in the account.

## **A Message to Prospera Variable Annuity Investors**

As an informed investor, you should know that every variable annuity provides an informational document known as a "prospectus". You should read this prospectus carefully. In addition to explaining the benefits and risks associated with the variable annuity, it will also explain the rights you have when you purchase a variable annuity, the expenses involved, and the compensation paid to distributors. Please note: variable annuities involve risks, including the potential for principal loss.

A variable annuity is an insurance contract between you and an insurance company, under which the insurance company agrees to make periodic payments to you, beginning either immediately or at some future date. You purchase a variable annuity contract with either a single payment or with multiple payments. Variable annuities are designed to be long-term investments to meet retirement and other long-range goals.

A variable annuity offers a variety of investment options. The value of your annuity will vary depending on the performance of the investment options you choose. The investment options for a variable annuity are typically sub-accounts (similar to mutual funds) that invest in stocks, bonds, money market instruments, or some combination of the three.

Although variable annuities are typically invested in mutual funds, variable annuities differ from mutual funds in several important ways:

- Variable annuities allow you to receive periodic payments for the rest of your life (or the life of your beneficiary). This feature offers protection against the possibility that, after you retire, you will outlive your assets.
- Some variable annuities have a death benefit feature that is not available with mutual funds. If you die before the insurance company starts making payments to you, your beneficiary is guaranteed to receive a specified amount, usually the amount of your purchase payments, less any prior withdrawals, at a minimum. Such guarantees are based on the claims-paying ability of the underlying insurance company.
- Variable annuities are tax-deferred. This means that you pay no taxes on the income and investment gains from your annuity until you withdraw your money. You may also transfer your money from one investment option to another within a variable annuity without paying tax at the time of the transfer. You should check your variable annuity prospectus, however, for any transfer restrictions. Withdrawals taken before age 59 ½ might be subject to an additional tax penalty.

### ***The Costs Associated with Investing in Variable Annuities***

All variable annuities have fees and expenses. These costs, like all investing costs, are important because they affect the return on your investment. All annuities have ongoing expenses that you will pay as long as you have an investment in the annuity. Variable annuities have higher expenses than traditional mutual funds. You will pay for each benefit provided by the variable annuity. These fees and expenses are disclosed in the fee table in the front of the annuity's prospectus, and are incurred when you buy an annuity, while you own an annuity, and when you withdraw money from an annuity.

- Annuities typically have a surrender charge (a charge you pay when you sell annuity shares) that declines over time until it disappears.
- Annual operating expenses include mortality and expense risk charge, fund management fees, 12b-1 (distribution) fees, the cost of shareholder mailings, and other expenses.

The expense ratio, shown in the fund's prospectus, helps you compare annual expenses of different variable annuities and the additional benefits. You do not pay operating expenses directly; rather, they are deducted from the annuity's total assets.

### ***How Prospera and Your Financial Professional are Compensated***

Prospera and our Financial Professionals are paid in different ways for helping you choose variable annuities, depending on the type of variable annuity, the amount invested, and the age of the client. Similar to mutual funds, Prospera is paid by the variable annuity company based on the fees you pay as described above. Then, a

portion of that payment goes to your Financial Professional. The formula used to determine the amount of compensation to your Financial Professional is the same regardless of which variable annuity you purchase.

In addition, ongoing payments (known as residuals or trails) on variable annuities that are held in your account for more than one year are set by the variable annuity company and generally paid to Prospera. Prospera then pays your Financial Professional based on their compensation formula.

If you purchase variable annuities in a “fee-based” account where you do not pay upfront sales charges, your Financial Professional’s compensation is based on a percentage of the total assets held in the account.

## **A Message to Prospera Alternative Investment Investors**

To be an informed investor, you should know that every Alternative Investment product provides an informational Offering Document, which can also be referred to as a Private Placement Memorandum, prospectus or other similar term. You should read all offering materials carefully. In addition to explaining the benefits and risks associated with the Offering, it should solely be relied upon as the governing document for the program and will explain the rights you have, the expenses involved and the compensation paid to distributors.

Prospera relies upon financial information you provide to us in determining whether or not Alternative Investments are suitable products for your portfolio. You should only commit risk capital to Alternative Investments. Alternative Investments should be considered speculative and there is no guarantee for any results.

**Please note: Alternative Investments can be volatile and involve risks, INCLUDING THE POTENTIAL LOSS OF YOUR ENTIRE PRINCIPAL.**

Alternative Investments can be shaped as General and Limited Partnerships, Joint Ventures, Corporate and not-for-profit style entities, fund offerings, etc. The underlying purpose for the Offering involves such matters as investing in real estate, mortgage loans, oil and/or gas, mineral royalties, hedge funds, private equity funds, pooled investment funds, or a “funds of funds.”

Alternative investment products are not for everyone and entail risks that are different from more traditional investments. You should obtain investment and tax advice from your advisers before deciding to invest. When considering Alternative Investments you should consider various risks including the fact that some products use leverage and other speculative investment practices that may increase the risk of investment loss, can be illiquid, are not required to provide periodic pricing or valuation information to investors, may involve complex tax structures and delays in distributing important tax information, are not subject to the same regulatory requirements as mutual funds, often charge high fees, and in many cases the underlying investments are not transparent and are known only to the investment manager.

### ***The Costs Associated with Investing in Alternative Investment Products.***

All Alternative Investments have fees and expenses. These costs, like all investing costs, are important because they affect the return on your investment. Some Alternative Investments are fully funded with your contribution while others may require you to contribute additional capital at various stages or under certain conditions. Consult the offering materials to make sure you fully understand your commitments and responsibilities. Most if not all Alternative Investments have ongoing expenses that you will pay as long as you have an investment in the Offering. These fees and expenses are disclosed in the Offering Documents, and are incurred when you buy, while you own, and/or when your investment is liquidated.

### ***How Prospera and Your Financial Professional are Compensated***

Prospera and our Financial Professionals are paid in different ways for helping you choose Alternative Products depending on the type of product and the amount invested. Prospera is paid by the Alternative Product vendor based on the fee structure outlined in the offering documents. Then, a portion of that payment goes to your Financial Professional. The formula used to determine the amount of compensation to your Financial Professional is the same regardless of which product you purchase.

In addition, some Alternative Products offerings provide for ongoing payments (known as residuals or trails) if you hold the investment for more than one year. These trails are set by the offering documents and generally paid to Prospera. Prospera then pays your Financial Professional based on their compensation formula.

If you purchase Alternative Products in a “fee-based” account where you do not pay upfront sales charges, your Financial Professional’s compensation is based on a percentage of the total assets held in the account.

## **Prospera’s Marketing Educators Program**

Prospera offers a broad spectrum of financial products. We believe it is important that our Financial Professionals evaluate these products and assist you in selecting the products that meet your investment needs. Because of the large number of products available for sale in the United States, we focus on a select group of some of the largest and most well known companies available. We provide these companies with access to our Financial Professionals to provide training and other educational programs so that your Financial Professional can better serve you. We invite these companies to join our Marketing Educators Program.

Marketing Educators pay us an annual fee to participate in the Program and may also compensate us with a percentage of our aggregate purchases. Our arrangements with our Marketing Educators are within industry rules and regulations and are not a part of your sales charge.

For an updated list of the participants in our Marketing Educators Program or for additional information, please visit our website at [www.prosperafinancial.com](http://www.prosperafinancial.com) and select “Legal Information” from the Home Page, or contact our Compliance Department at (972) 581-3000.

## Municipal Securities Information

### *Municipal Securities*

The Municipal Securities Rulemaking Board (MSRB) was established in 1975 by Congress to protect investors and the public interest by promoting a fair and efficient municipal securities market. To accomplish this mission, the MSRB regulates securities firms and banks that underwrite, trade, and sell municipal securities, and collects and disseminates market information by making this information available to the public through the MSRB's Electronic Municipal Market Access ("EMMA") website. The MSRB operates the EMMA website to promote transparency and widespread access to information to the public, as well as to provide education and conduct extensive outreach as part of its mission-driven activities. To find out more information about any municipal security, access this free, centralized disclosure system at [www.emma.msrb.org](http://www.emma.msrb.org).

### *High Yield Bonds*

High-yield bonds tend to have more risk and tend to be more volatile in nature than other types of securities. Understand that the higher return reflects the inherent risk underlying the issuer's ability to retire the debt at maturity. You must realize before buying high yield bonds that this type of investment could result in a substantial loss of your investment.

## Arbitration

### *Arbitration Disclosures*

Prospera's new account agreements contain a pre-dispute arbitration clause. By signing an arbitration agreement the parties agree as follows:

- All parties to this Agreement are giving up the right to sue each other in court, including the right to a trial by jury, except as provided by the rules of the arbitration forum in which a claim is filed.
- Arbitration awards are generally final and binding; a party's ability to have a court reverse or modify an arbitration award is very limited.
- The ability of the parties to obtain documents, witness statements and other discovery is generally more limited in arbitration than in court proceedings.
- The arbitrators do not have to explain the reason(s) for their award.
- The panel of arbitrators will typically include a minority of arbitrators who were or are affiliated with the securities industry.
- The rules of some arbitration forums may impose time limits for bringing a claim in arbitration. In some cases, a claim that is ineligible for arbitration may be brought in court.
- The rules of the arbitration forum in which the claim is filed, and any amendments thereto, shall be incorporated into this agreement.

No person shall bring a putative or certified class action to arbitration, nor seek to enforce any pre-dispute arbitration agreement against any person who has initiated in court a putative class action; or who is a member of a putative class who has not opted out of the class with respect to any claims encompassed by the putative class action until: (i) the class certification is denied; or (ii) the class is decertified; or (iii)

**the customer is excluded from the class by the court. Such forbearance to enforce an agreement to arbitrate shall not constitute a waiver of any rights under this agreement except to the extent stated herein.**

### ***Arbitration Provision***

By opening an account with Prospera, you are agreeing that all controversies or disputes which may arise between you and Prospera, First Clearing, and any sub-advisor (and/or any other agent), (collectively “us”) concerning any transaction or the construction, performance or breach of any agreement between us, including any controversy concerning whether an issue is arbitrable, shall be determined by arbitration conducted before, and only before, an arbitration panel set up by the Financial Industry Regulatory Authority (“FINRA”) in accordance with their respective arbitration procedures. Any of us may initiate arbitration by filing a written claim with FINRA. The arbitration shall be held in the city chosen by us and shall be settled by arbitration pursuant to the Federal Arbitration Act and under the arbitration rules and procedures of FINRA Dispute Resolution, Inc. or any other self-regulatory organization of which we are a member. Visit [www.finra.org/ArbitrationMediation/Parties/Index.htm](http://www.finra.org/ArbitrationMediation/Parties/Index.htm) for more information on the arbitration process.

### ***Broker Check Information***

FINRA established BrokerCheck (formerly known as the Public Disclosure Program) in 1988 to provide the public with information on the professional background, business practices, and conduct of FINRA member firms and their associated persons. Via BrokerCheck, FINRA releases to the public certain information reported on uniform registration forms to its Central Registration Depository (CRD®). Among other things, BrokerCheck can help investors make informed choices about the individual brokers and brokerage firms with which they may wish to do business. To gain access to this free system, go to [www.finra.org/Investors/ToolsCalculators/BrokerCheck/](http://www.finra.org/Investors/ToolsCalculators/BrokerCheck/) or call toll-free (800) 289-9999 Monday through Friday from 8 am to 8 pm EST.

### ***Complaint Notification***

Please direct all complaints to: Prospera Financial Services, Inc., Attn: Compliance Department, 5429 LBJ Freeway, Suite 400, Dallas, Texas 75240, (972) 581-3000.

## **Identity Theft**

### ***Types of Identity Theft***

Identity theft occurs when someone uses your personal identifying information, such as your name, social security number, account or credit card number without your permission to commit fraud or other crimes.

At Prospera, we want to help you secure your financial future. It is important that you know how you can protect yourself from becoming a victim of this crime. Here are some tips to follow to help prevent:

- Theft – Guard your purse or wallet and know their whereabouts at all times.
- Dumpster diving – Shred documents with any personal information on them instead of putting them in the trash.
- Shoulder-surfing – Protect your Pin number when at an ATM or checkout counter from onlookers. Always wait for your ATM receipt and do not leave it behind.

- Mail fraud – Watch for schemes, such as fraudulent prize offers, via the U.S. Postal Service. Report any suspicious mail that you receive to your local U.S. Post Office or at [www.usps.com](http://www.usps.com).
- Telemarketing fraud – Avoid giving out any personal information to anyone over the telephone as they may not be representing a legitimate organization. Add all of your phone numbers (including cell phones) to the National Do Not Call List by registering them at [www.donotcall.gov](http://www.donotcall.gov).
- E-mail fraud – beware of “Phishing” - Delete any e-mail from a sender that you do not recognize. They may be trying to manipulate you into providing personal information.
- Computer hackers – use of “Malware” – Install adequate security filters on your computer to prevent and protect your personal information from unauthorized entry by sophisticated and often large-scale methods involving the use of software programs.

### ***If You Suspect You Have Become a Victim of Identity Theft***

If you suspect that you have become a victim of identity theft, go to the Federal Trade Commission’s (FTC) Identity Theft webpage at [www.ftc.gov](http://www.ftc.gov) to learn what steps to take to recover from identity theft; including filing a complaint using the FTC’s online complaint form, calling the FTC’s Identity Theft Hotline 1-877-ID-THEFT (438-4338), TTY (866) 653-4261, or writing to Identity Theft Clearinghouse, Federal Trade Commission, 6000 Pennsylvania Avenue, NW, Washington, DC 20580.

Contact the three major consumer-reporting companies to request that a Fraud Alert be placed on your credit file. A fraud alert requires creditors to verify your identity before opening any new accounts in your name or changing any existing accounts.

When placing the fraud alert on your credit file, request a copy of your credit report from all three companies. Consumer reporting companies are required to provide a free credit report to victims of identity theft. The contact information for the three reporting companies is as follows:

- |              |                |  |
|--------------|----------------|--|
| • Equifax    | (800) 525-6285 | <a href="http://www.equifax.com">www.equifax.com</a>   |
| • TransUnion | (800) 680-7289 | <a href="http://www.tuc.com">www.tuc.com</a>           |
| • Experian   | (888) 397-3742 | <a href="http://www.experian.com">www.experian.com</a> |

Contact your local police department and ask to file a crime report. This will help convince creditors that someone else may have opened or used an account in your name without your knowledge or permission.

Contact all of your creditors by phone to let them know of the possibility of fraudulent activity on your accounts and follow-up with a written letter. Closely monitor all accounts and report any unauthorized activity to the creditor immediately.

At Prospera, we work hard to safeguard your personal information.

- We are responsible for all account opening activities including complying with the “Know Your Customer” rules and the Customer Identification Program (CIP) regulations. We verify your identity by using a vendor service provided by First Clearing. If we are unable to verify your information, the account may be closed.

- Our clearing firm provides various electronic tools designed to monitor activity in your accounts in order to detect, among other things, potential identity theft.
- Both Prospera and First Clearing maintain policies and procedures designed to authenticate client instructions prior to the release of client information or records to third parties.
- A request to change your address of record on an existing account could be a red flag for identity theft. We request all address changes be submitted in writing by the owner(s) of the account. Once the request has been processed, a written confirmation of the address change is sent to both your old and new addresses.
- We also utilize First Clearing's services to mail to you a client notification for disbursement of funds or securities over a specified dollar threshold, if there is a beneficial change of ownership or if the request involves delivery to a third party institution or to an address other than your primary address of record.

## **Prospera's Business Continuity Plan Disclosure**

At Prospera, we recognize how heavily you rely upon our systems and services. We also recognize that business disruptions of varying degrees can, and do occur. Disruptions could be due to anything from a minor loss of electricity to major events such as September 11, 2001. Prospera wants you to know that we have plans in place to safeguard your assets and protect vital account information in the event of such an occurrence.

### ***Our Business Continuity Plan***

Prospera's objective is to quickly recover and resume business operations after a significant business disruption and respond by safeguarding our employees and property, making a financial and operational assessment of the situation, protecting the firm's books and records, and allowing our customers to transact business. Our business continuity plan addresses and is reviewed as necessary in regard to: data back-up and recovery; all mission critical systems; financial and operational assessments; alternative communications with customers, employees, and regulators; alternate physical location of staff members; critical suppliers, contractors, bank and counter-party impact; regulatory reporting; and ensuring that you have access to your funds and securities. Both First Clearing and Prospera back up our important data to separate geographic locations.

While every emergency situation poses unique problems based on external factors, such as time of day and the severity of the disruption, Prospera, along with our clearing firm, have objectives to restore operations and be able to restore business within a few hours. We also have pre-established, tested processes for re-routing of critical hotline numbers. In the event of a site outage, you should experience minimal downtime in your ability to contact us.

### ***Contacting Us***

If, after a significant business disruption, you are unable to contact your Financial Professional as you usually do, you may call Prospera's corporate location directly at (972) 581-3000 or go to our website at [www.prosperafinancial.com](http://www.prosperafinancial.com) for instructions. If you are unable to reach us through either of these means, you should contact our clearing firm, First Clearing LLC at (877) 496-3223. First Clearing will give you instructions on how to reach us, execute any necessary transactions, and will answer any questions you may have regarding your account(s).





**PROSPERA**  
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