



**PROSPERA**  
FINANCIAL SERVICES



**REGULATION BEST INTEREST DISCLOSURE**

**EFFECTIVE DATE: JUNE 30, 2020**

## TABLE OF CONTENTS

	<b>Page</b>
1. Scope and Terms of Our Relationship with You .....	3
1.1. Our Capacity .....	3
1.2. Type and Scope of Services .....	4
1.2.1. Material Limitations .....	5
1.3. Fees and Costs .....	6
1.3.1. Fees and Costs Associated with Account.....	6
1.3.2. Fees and Costs Associated with Transactions and Holdings .....	7
2. Conflicts of Interest .....	21
2.1. Conflicts for Both Our Firm and Financial Professionals.....	22
2.2. Conflicts for Our Firm Alone.....	23
2.3. Conflicts for Financial Professionals Alone.....	23

We provide this required 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.

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

Prospera Financial Services, Inc. (the Firm) is registered with the Securities and Exchange Commission (SEC) as both a broker-dealer and an investment adviser. Our brokerage and investment advisory services and fees differ, and it is important for you to understand these differences. Free and simple tools are available for you to research firms and financial professionals at [Investor.gov/CRS](https://investor.gov/CRS), which also provides educational materials about broker-dealers, investment advisers, and investing.

Depending on your needs and your investment objectives, the Firm may assist you with brokerage services, investment advisory services, or both. There are important differences between brokerage and advisory services, including their costs, the services we provide, and the rules that govern them. You should carefully consider these differences when deciding which type, or combination of types, of services and accounts are right for you. Information regarding the differences between our brokerage and advisory services is also available in our Form CRS Customer Relationship Summary disclosure, which is available at [ProsperaFinancial.com/disclosures/](https://ProsperaFinancial.com/disclosures/).

### **1.1. Our Capacity**

All recommendations made by your financial professional regarding your broker-dealer account (your brokerage account) will be made in a broker-dealer capacity, and all recommendations regarding the account established for our advisory programs will be made in an advisory capacity.

#### *Broker-Dealer Capacity*

In our capacity as a broker-dealer, we can recommend and effect securities transactions for you, including buying and selling securities (including investment funds and products) that can be held in your brokerage account. We offer many different options or account types for your brokerage account, including accounts held with our clearing firms Wells Fargo Clearing Services and Pershing (which includes specialty accounts such as margin accounts); accounts held directly with the issuer of the securities purchased (sometimes referred to as directly held accounts); education accounts (e.g., college savings plans); and retirement accounts (e.g., IRA or 401(k) accounts), where your investments will be held with the custodian of the IRA or 401(k) instead of our clearing firms listed above.

In addition, 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"). We do not have any minimum account requirements for our brokerage accounts, but some of the investments you can purchase through us and our advisory programs have minimum investment requirements. More information about these minimum investment requirements is available in the investment's offering document or prospectus or the advisory program contract and form ADV.

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, this means that 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 also do not monitor your account after a securities transaction is affected for you, including those investments they recommend for you. This service is only available in advisory accounts.

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.

### *Investment Adviser Capacity*

As an investment adviser, we provide investment advice to you for a fee, including investment advice with respect to particular investments, as well as wrap programs (that do not assess a separate execution charge) and other investment advisory programs. We also place orders for you as an investment adviser through a brokerage account with us or through a brokerage account at another broker-dealer. When we act in our capacity as an investment adviser, we will generally do so pursuant to a written agreement with you that sets forth the investment advisory relationship and our obligations to you. When we act as an investment adviser to you, we are generally considered to have a fiduciary relationship with you under the Investment Advisers Act of 1940, which requires that we owe you a duty of care and a duty of loyalty.

At the outset of our investment advisory relationship with you, you will also receive a disclosure document, our Form ADV, Part 2A brochure, that describes our investment advisory services and includes important information about, among other things, our fees, personnel, other business activities, and conflicts between our interests and your interests. This disclosure document is available at [ProsperaFinancial.com/disclosures/](https://ProsperaFinancial.com/disclosures/).

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

### *Brokerage Services*

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, which may include accounts held with our clearing firms, directly held accounts, education accounts, IRA accounts, or margin accounts.

We also offer the option to hold cash in a cash sweep vehicle. 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. 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 certain margin account services, where you are extended credit (a loan) for the purpose of buying securities and offering securities-based lending secured by your eligible investments.

### *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 accounts held with our clearing firm; directly held accounts; education accounts (e.g., college savings plans); retirement accounts (e.g., IRA accounts); and certain specialty accounts (e.g., margin accounts).

In addition, our 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. We also offer margin accounts.

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

## *Our Investment Philosophy*

The Firm's target market is middle income to high income retail customers who are primarily seeking to invest to meet retirement, education, and other similar funding goals, and secondarily to invest for legacy purposes. Our financial professionals can also tailor investment recommendations to meet additional investment objectives as directed by the customer. The Retail Platform includes traded investments, investment funds and products, insurance products, non-traded investments, both private and registered, and investment strategies believed to be in the best interest of the Firm's customer base.

We require our financial professionals to have a reasonable basis, taking into account the potential risks, rewards, and costs associated with a recommendation, to believe that each recommendation made to a retail customer is in the retail customer's best interest, and does not place the interest of the broker-dealer or financial professional ahead of the interests of the retail customer at the time the recommendation is made.

In determining whether our financial professional's recommendation is in the retail customer's best interest, we consider the retail customer's individual investment profile. The information in the retail customer's investment profile includes, but is not limited to, the retail customer's age, other investments, financial situation and needs, tax status, investment objectives, investment experience, investment time horizon, liquidity needs, risk tolerance, and other information that the retail customer may disclose to us or the financial professional in connection with a recommendation.

### **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, and we also offer investments issued, sponsored, or managed 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.

Notwithstanding the wide range of our brokerage services, there are certain material limitations on our services and the services of our financial professionals, and these limitations are set forth below.

- *Financial Professional Limitations:* Not all of our financial professionals can offer the full range of investments and services we offer. For instance, our financial professionals either offer Wells Fargo Clearing Services custodial services or Pershing custodial services, but they only offer one or the other for all their clients. Some choose to only offer advisory services.
  - These are materials limitation on the custodial platform or account type 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 [BrokerCheck.finra.org/](http://BrokerCheck.finra.org/).
- *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 single mutual fund company issuer, or every type of ETF. We also 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 are authorized to offer. This is a material limitation on the securities or investment strategies that our financial professionals may recommend to you.
- *Account Monitoring:* Our financial professionals do not monitor your brokerage account after effecting a securities transaction for you, including those investments our financial professionals recommend, unless you specifically request that our financial professionals do so and we agree in writing to provide such monitoring. While our financial professionals remain available to assist you, our financial professionals do not automatically monitor your account or your investment performance after effecting a securities transaction. This is a material limitation on our services and the services of our financial professionals.

- *Discretionary Investment Authority:* 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, this means that 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.

### **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.

#### **1.3.1. Fees and Costs Associated with 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 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 accounts held with our clearing firm; directly held accounts; education accounts (e.g., college savings plans); retirement accounts (e.g., IRA accounts); and certain specialty accounts (e.g., margin 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 paid annually, although some account-based fees are associated with specific transactions. In some cases, the fees and costs associated with your account and holdings are assessed indirectly by third parties, such as custodial firms or clearing firms, and we pass along these fees to you. The fees below may vary based on whether your financial professional has chosen Wells Fargo Clearing Services or Pershing as their custodian clearing firm platform, and these fees may also be lower if buying securities directly held with the sponsor. Please discuss any questions about these fees with your financial professional.

Highlighted below are the material fees and costs associated with your account:

- *Account Maintenance Fees* – We generally charge you an annual “account maintenance fee” for maintaining your brokerage account with us. This account maintenance fee compensates us for certain maintenance services that we provide to your brokerage account and reimburses us for certain operational expenses that we incur in maintaining your account with us. This fee typically ranges between \$45 and \$125 at Wells Fargo and between \$25 and \$250 at Pershing, depending on the account type and is paid annually.
- *Account Transfer Fees* – We generally charge you a one-time “account transfer 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. This fee is typically \$125 and is paid when you initiate the transfer of your account to another broker-dealer.
- *Account Termination Fees* – We generally charge you a one-time “account termination fee” to reimburse us for the costs associated with terminating your account with us. This fee is typically \$125 for qualified accounts and is paid when you terminate your account relationship with us.
- *Margin Fees* – We generally charge you for our 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 typically range from Prime to Prime + 4%, 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 is typically \$15 but may be more for certain international wire transfers.

- *Inactivity Fee* – We charge an annual fee for account inactivity. The fee ranges from \$0 to \$65 at Wells Fargo and from \$25 to \$65 at Pershing, per inactive account, per year, depending on the type of account.
- *IRA Fee* – We charge an annual retirement account maintenance fee for maintaining your retirement account with us. This account maintenance fee compensates us for certain maintenance services that we provide to your retirement account and reimburses us for certain operational expenses that we incur in maintaining your account with us. This fee typically ranges between \$55 at Wells Fargo and between \$25 and \$65 at Pershing, depending on the account type and is paid annually.
- *Additional Costs and Fees* – Incidental additional costs and fees may apply for various services provided for your account with us. Please see the client schedule of fees for your custodian at <https://www.prosperafinancial.com/disclosures/> for further details or discuss any questions you may have about these fees with your financial professional.

#### *More Information*

More information about the fees and costs associated with your account is available in the schedule of fees and costs in your brokerage agreement with us.

### **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. 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.

In addition, investments that are interests in investment funds, such as mutual funds, non-traded investments, 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.

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.

Where applicable, we have included certain hypothetical transactions as examples for illustrative purposes. Please note that fees and costs associated with your specific transaction may differ from these hypothetical examples.

#### **Equities**

##### *Characteristics*

The Firm offers a wide range of equity securities, which give stockholders a share of ownership in a company. Stocks usually are one part of an investor’s holdings. 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, which we offer to our clients, 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 at [SEC.gov/Edgar](http://SEC.gov/Edgar).

##### *Fees and Costs*

Buying and selling stocks 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. This commission is a one-time fee, which typically ranges between \$0 and 5% plus a \$19.95 ticket charge per trade. Listed NYSE and AMEX equity transactions will incur an additional \$.01 per share execution fee. Our firm is not a "discount" broker-dealer; discount broker-dealers generally offer lower commission rates.

*For example, if you purchase 1000 shares in a public company at \$5 per share, you will typically pay a commission ranging from \$0 to \$250, plus the \$19.95 ticket charge.*

#### *More Information*

You may also obtain information about equity securities generally by visiting the SEC's website at [Investor.gov/introduction-investing/investing-basics/investment-products/stocks](http://Investor.gov/introduction-investing/investing-basics/investment-products/stocks) or on FINRA's website at [FINRA.org/investors/learn-to-invest/types-investments/stocks](http://FINRA.org/investors/learn-to-invest/types-investments/stocks).

## **Bonds**

### *Characteristics*

The Firm offers 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.

### *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 of the bond to above its face value. 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.

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 also buy or sell you bonds on a principal basis as the direct trade clearing firm.

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. However, markup/markdowns will not exceed 3% or 1% for treasuries. Each transaction will also incur a \$19.95 ticket charge and a \$1 per \$1000 face value execution fee for listed corporate bond transactions.

*For example, if you purchase 100 corporate bonds priced at \$100 per bond, and the markup is \$2 per bond, you would pay \$100 for the market price per bond and then an additional \$2 markup, which means you would pay \$102 in total to purchase each corporate bond. You would also pay the \$19.95 ticket charge and \$10 execution fee for the \$10,000 face value of this transaction.*

#### *More Information*

More information describing a specific bond's features and risks is available in the bond's offering document. More information about bonds, including pricing and issuer credit ratings, is also available on FINRA's website at [FINRA.org/investors/learn-to-invest/types-investments/bonds](http://FINRA.org/investors/learn-to-invest/types-investments/bonds), the SEC's website at [Investor.gov/introduction-investing/investing-basics/investment-products/bonds](http://Investor.gov/introduction-investing/investing-basics/investment-products/bonds) or the MSRB's website at [MSRB.org/EducationCenter](http://MSRB.org/EducationCenter).

## **Options**

### *Characteristics*

The firm offers 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 the Options Clearing Corporation website at [TheOCC.com/Characteristics-Risks](http://TheOCC.com/Characteristics-Risks).

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.

### *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 commission is a one-time fixed fee, which typically ranges between \$0 and 5% plus a \$1.25 execution fee per contract and \$19.95 ticket charge per transaction. 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 and/or execution charge being assessed.

*For example, if you purchase the option to buy 100 shares of a public company (which is one contract), you will typically pay a \$0 to \$5 commission, plus the \$19.95 ticket charge and a \$1.25 execution fee for this transaction, regardless of whether you choose to exercise the option.*

#### *More Information*

In addition, more information regarding options is available by visiting FINRA’s website at [FINRA.org/investors/learn-to-invest/types-investments/options](http://FINRA.org/investors/learn-to-invest/types-investments/options) or at the Options Clearing Corporation’s website at [theOCC.com/education](http://theOCC.com/education).

### **Mutual Funds**

#### *Characteristics*

The Firm offers 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.

An important aspect of mutual fund investing is 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 the mutual fund’s past performance, investment objective, investment strategies and risks, the investment adviser responsible for the management of the mutual fund’s assets, and the fees and expenses associated with an investment in a particular mutual fund. While past performance of a mutual fund is not indicative of future results, a mutual fund’s long-term performance record and portfolio manager’s experience and qualifications may be important factors in deciding to invest in a mutual fund.

#### *Fees and Costs – Generally*

You will typically pay a sales charge or load 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. Additional transaction costs may be incurred for transactions on our clearing firm platforms versus potentially lower transaction costs when purchasing and maintaining custody directly with the sponsor.

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, the most common share classes available to you are Class A, Class C, and Class R. Each 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 most common 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 and typically ranges from 0% to 6%. 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.

*For example, if you purchase \$10,000 of Class A shares of a mutual fund that assesses a 5% front-end sales charge on your investment, you will pay a \$500 front-end sales charge and the remaining \$9,500 of your investment will be used to purchase Class A shares of the mutual fund.*

- Class C – This share class is characterized by a level asset-based sales charge that you pay internally that is included in the expense ratio by figuring it into the NAV daily share price as a percentage of your assets, typically ranging from 0.31% to 4.13%. 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) charged on liquidations during the first year. 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.

*For example, if you purchase \$10,000 of Class C shares of a mutual fund with a 1.75% asset-based sales charge, you will not pay a front-end sales charge or a CDSC after one year, so the entire \$10,000 investment will be used to purchase Class C shares of the mutual fund at the time of purchase. However, each year, your investment will be charged a 1.75% asset-based charge, so your initial \$10,000 investment will be reduced to \$9825 after the first year as a result of the asset-based sales charge, assuming no appreciation of the shares in that one-year period.*

- Class R – This share class is available to retirement investors purchasing shares in a mutual fund through employer-sponsored retirement plans, such as 401(k) plans, or non-profit entities. Class R shares do not have a front-end sales charge or CDSC like Class A or Class C shares, but Class R shares do have ongoing fees and expenses such as 12b-1 fees which range from 0.16% to 2.98% and are intended to finance the distribution activities related to sales of the fund shares. These fees and expenses are deducted from your assets on an ongoing basis.

*For example, if you purchase \$10,000 of Class R shares of a mutual fund through your employer-sponsored retirement plan, you will not pay a front-end sales charge or a CDSC, so the entire \$10,000 investment will be used to purchase Class R shares of the mutual fund at the time of purchase. However, certain ongoing fees and expenses, such as 12b-1 fees, will be deducted from your investment. If the ongoing fees and expenses are 1.25%, your \$10,000 investment will be reduced to \$9875 after the first year as a result of the ongoing fees and expenses.*

Each transaction will also incur a \$19.95 ticket charge for purchases, \$10.00 ticket charge for liquidations, \$0.75 to 2.00 ticket charge for exchanges, and \$0.75 ticket charge for automatic investments.

#### *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).

The prospectus of every mutual fund describes its breakpoint policies, including how you can reach breakpoints. You can request a copy of a mutual fund’s prospectus from your financial professional. You can also access prospectuses for mutual funds we offer at [SEC.gov/oiea/Article/edgarguide](https://www.sec.gov/oiea/Article/edgarguide).

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

In addition to the 12b-1 fees mentioned above, mutual funds typically also deduct other ongoing fees and expenses, such as management fees or servicing fees, from fund assets. These ongoing fees and expenses are typically used to pay for the mutual fund’s 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. In addition, as noted above, the ongoing fees and expenses include fees commonly referred to as 12b-1 fees, and these 12b-1 fees are intended to finance distribution activities intended primarily to result in the sale of additional shares of the mutual fund, and include marketing and advertising expenses.

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

#### *More Information*

More information on a mutual fund’s sales charges, ongoing fees and expenses, and overall expense ratio is available in the mutual fund’s prospectus. You can request a copy of a mutual fund’s prospectus from your financial professional. You can also access prospectuses for mutual funds we offer at [SEC.gov/oiea/Article/edgarguide](https://www.sec.gov/oiea/Article/edgarguide).

### **Closed-End Funds**

#### *Characteristics*

The Firm offers a wide range of closed-end funds, including interval funds, from many different fund companies. An important aspect of closed-end fund investing is 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. Traded closed-end funds become listed securities through an IPO, which we may participate in as a selling group member.

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. For a public offering purchase, the fund's sales charge is a one-time fixed fee, which is typically a percentage of the investment amount, and usually ranges between 1% and 5% of the investment amount for closed-end funds. For a closed-end fund transaction in the secondary trading market, the commission is also a one-time fixed fee, which also is typically between 1% and 5% per trade. If you purchase a closed end fund from us during its IPO, you will also pay selling group concessions and fees that will reduce the value of your investment.

*For example, if you purchase \$10,000 of shares in the initial offering of a closed-end fund that assesses a 2% sales charge on your investment, then a \$200 sales charge will be deducted and the remaining \$9,800 of your investment will be used to purchase shares in the closed-end fund's initial offering. If you purchase \$10,000 of shares in a closed-end fund on a secondary trading market that assesses a 5% commission, you will pay a \$500 commission.*

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, typically 1% or less of the redemption proceeds. Unlike the sales charges and commissions, the redemption charge is not paid to us, but is paid to the fund to compensate it for expenses associated with the repurchase.

*For example, if you own \$10,000 of shares in an interval fund that assesses a 1% redemption charge, and you accept an interval fund's offer to repurchase all of your shares, a \$100 redemption charge will be deducted and you will receive the remaining \$9900 as your redemption proceeds.*

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. These payments, as well as the conflicts of interest associated with them, are described more fully below in this Reg BI Disclosure.

### *More Information*

More information on the sales charges, ongoing fees and expenses, and overall expense ratio for closed-end funds, including interval funds, is available in the fund's prospectus. You can request a copy of a fund's

prospectus from your financial professional. You can also access prospectuses for funds we offer at [SEC.gov/oiea/Article/edgarguide](https://www.sec.gov/oiea/Article/edgarguide).

## **Exchange-Traded Funds**

### *Characteristics*

The Firm offers 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 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.

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

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

### *Fees and Costs*

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, typically 1% to 5% per trade. You will also pay the usual \$19.95 ticket charge.

*For example, if you purchase \$10,000 of shares in an ETF at a 2% commission, you would pay a \$200 commission, plus the \$19.95 ticket charge.*

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. However, ETFs generally have lower expense ratios than mutual funds because most ETFs are not actively managed and, therefore, do not incur the internal costs of buying and selling the underlying portfolio securities.

These ongoing fees and expenses are typically charged annually as a percentage of your assets. You pay these fees and expenses indirectly because they are deducted from your assets on an ongoing basis. We may receive payments from the legitimate profits of the ETF's investment adviser, where such payments are generally referred to as "third-party payments" or "revenue sharing." These payments, as well as the conflicts of interest associated with them, are described more fully below in this Reg BI Disclosure.

### *More Information*

More information about ETFs, including their ongoing fees and expenses and overall expense ratio, is available in the ETF's prospectus. You can request a copy of a mutual fund's prospectus from your financial professional. You can also access prospectuses for mutual funds we offer at [SEC.gov/oiea/Article/edgarguide](https://www.sec.gov/oiea/Article/edgarguide).

## **Unit Investment Trusts**

### *Characteristics*

The Firm offers 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, typically from 0% to 5%, in addition to the amount of the UIT you choose to buy or sell. UITs also incur a \$35.00 ticket charge per transaction.

*For example, if you invest \$10,000 in a UIT's initial offering that assesses a 2.5% sales charge, then a \$250 sales charge will be deducted and the remaining \$9,750 of your investment will be used to purchase units in the UIT's initial offering. If you purchase \$10,000 of units in a UIT on a trading market that assesses a 2.5% commission, you will pay a \$250 commission plus the \$35 ticket charge.*

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.

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. We may receive a portion of these fees and expenses, generally referred to as "third-party payments" or "revenue sharing." These payments, as well as the conflicts of interest associated with them, are described more fully below in this Reg BI Disclosure.

### *More Information*

More information about UITs, including their sales charge and ongoing fees and expenses, is available in the UIT's prospectus.

## **Real Estate Investment Trusts**

### *Characteristics*

The Firm offers a wide range of real estate investment trusts (REITs), which own and typically operate income-producing real estate assets, such as office buildings, shopping malls, apartments, hotels, resorts, self-storage facilities, warehouses, and real estate mortgages or loans. Unlike other real estate companies, REITs do not develop real estate properties to resell them, but rather buy and develop properties primarily to operate them as part of their own investment portfolio.

As an investment for a retail customer, REITs provide exposure to the investment performance of commercial real estate. REITs are required to pay out most of the taxable income to their shareholders. Some REITs can offer higher dividend yields than some other investments.

We offer both publicly traded REITs (traded REITs), which are typically listed for trading on a national securities exchange, and non-traded REITs, which are not listed for trading on public exchanges. While traded REITs can be bought and sold on a secondary trading market, the non-traded REITs cannot be bought or sold readily in a secondary trading market and are typically only available for purchase when the REIT is conducting a public offering of its shares. While the market price for shares of traded REITs is readily available, that is not the case for shares of non-traded REITs. Shares of non-traded REITs are considered to be illiquid investments because you may not be able to sell your shares readily. Also, in the case of non-traded REITs, which generally are purchasing real estate assets as they are conducting their offerings, dividend yields may come from offering proceeds or borrowings rather than from rental income, reducing the amount available to invest in real estate assets. Non-traded REITs also typically have an external manager whereas traded REITs typically have internal employees. The interests of external managers, who receive fees from the REIT for managing the REIT and assisting with acquisitions, can conflict with the interests of the shareholders of the non-traded REITs.

### *Fees and Costs*

You will typically pay a commission when you buy shares in a REIT's public offering or buy or sell shares in a REIT in a secondary trading market. For an initial offering purchase, the REIT commission is a one-time fixed fee, typically a percentage of the investment amount, and usually ranges between 0% and 5% of the investment amount. The commission is deducted from the amount you invest. For a purchase or sale transaction in the secondary trading market, the REIT commission is also a one-time fixed fee, typically 0% to 5% per trade. The commission is a separate charge from the purchase or sale amount.

*For example, if you purchase \$10,000 of shares in a public offering of a REIT that assesses a 5% sales charge on your investment, then you will pay a \$500 sales charge and the remaining \$9,500 of your investment will be used to purchase shares in the REIT's offering. If you purchase \$10,000 of shares in a REIT in the secondary trading markets that assesses a 5% commission, you will pay a \$500 commission.*

REITs bear the fees and expenses associated with acquiring, operating, and disposing of their assets. You pay these fees and expenses indirectly because they impact the profitability of the REIT and the value of your shares.

We may receive a portion of these fees and expenses, generally referred to as "third-party payments" or "revenue sharing." These payments, as well as the conflicts of interest associated with them, are described more fully below in this Reg BI Disclosure.

### *More Information*

More information about REITs, including their initial commissions and ongoing fees and expenses, is available in the REIT's prospectus.

## **Non-traded Investments**

### *Characteristics*

The Firm offers a wide range of non-traded alternative investments ("Alt"), which invest in a number of strategies, including, but not limited to, oil and gas, real estate, managed futures, or credit market.



We offer both registered and non-registered traded Alts, which means some have been registered with the SEC and file public statements and some have not registered with the SEC and do not file public statements. Non-traded Alts cannot be bought and sold on a secondary trading market and are typically only available for purchase when the Alt is conducting an offering of its units. The market price for units of non-traded Alts will not be readily available. Units of non-traded Alts are considered to be illiquid investments because you may not be able to sell your units readily. Also, in the case of non-traded Alts, which generally are purchasing real estate assets as they are conducting their offerings, dividend yields may come from offering proceeds or borrowings rather than from rental income, reducing the amount available to invest in real estate assets. Non-traded Alts also typically have an external manager. The interests of external managers, who receive fees from the Alt for managing the Alt and assisting with acquisitions, can conflict with the interests of the Alt investors. We also offer Alt investments managed or sponsored by us or our affiliates.

### *Fees and Costs*

You will typically pay a commission when you buy units in an Alt, a one-time fixed fee, and the initial offering commission (which can be described as a commission and dealer manager or due diligence fee) may be up to 10% of the investment amount. The commission is deducted from the amount you invest.

*For example, if you purchase \$10,000 of shares in an alternative product that assesses a 6% commission on your investment, then you will pay a \$600 commission and the remaining \$9,400 of your investment will be used to purchase shares in the Alt's offering. You may also be charged a one-time ticket charge with your purchase, depending on the type of investment purchased and whether purchased through your brokerage account or directly with the Alt vendor.*

Alts bear the fees and expenses associated with acquiring, operating, and disposing of their assets. You pay these fees and expenses indirectly because they impact the profitability of the Alts and the value of your shares.

We may receive a portion of these fees and expenses, generally referred to as "third-party payments" or "revenue sharing." These payments, as well as the conflicts of interest associated with them, are described more fully below in this Reg BI Disclosure.

### *More Information*

More information about Alts, including their initial commissions and ongoing fees and expenses, is available in the Alt's prospectus or private placement memorandum.

## **College Savings Plans**

### *Characteristics*

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

There are two general types of 529 plans: 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. 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 often 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, the most common share classes available to you are Class A and Class C. Each class typically has different fees and expenses, and therefore investment option performance results will differ as those fees and expenses reduce performance across share classes. You should also note that the amount of time you expect to hold your investment in a college savings plan may play an important role in determining which share class is most appropriate for you, and you should discuss this consideration with your financial professional.

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

- Class A – This share class usually carries a front-end sales charge, which is 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 option. This means that ongoing costs will typically be lower than ongoing costs associated with other share classes of the same investment option. Many college savings plans also offer “breakpoint” discounts for large investments in Class A shares of investment options, which means that the front-end sales charge decreases as the investment increases. These breakpoints are described in the college savings plan’s offering document.

*For example, if you purchase \$10,000 of Class A shares of an investment option for a college savings plan that assesses a 5% front-end sales charge on your investment, then you will pay a \$500 front-end sales charge and the remaining \$9,500 of your contribution will be used to purchase Class A shares of the investment option.*

- Class C – This share class is characterized by a level asset-based sales charge that you pay internally that is included in the expense ratio by figuring it into the NAV daily share price as a percentage of your assets in an investment option. It does not have a front-end sales charge like Class A shares, but does have a CDSC like Class C shares. Like Class C shares, the CDSC is generally eliminated after a short period of time (usually one year).

*For example, if you purchase \$10,000 of Class C shares of an investment option of a college savings plan with a 1.75% asset-based sales charge, you will not pay a front-end sales charge or a CDSC, so the entire \$10,000 contribution will be used to purchase Class C shares of the investment option at the time of purchase. However, each year, your contribution will be charged a 1.75% asset-based charge, so your \$10,000 contribution will be reduced to \$9825 after the first year, assuming no appreciation or depreciation of the shares in that one-year period.*

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 options. 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.

#### *More Information*

More information on the sales charges and ongoing fees and expenses is available in the college savings plan’s offering document, which you can request from your financial professional.

### **Variable Products**

#### *Characteristics*

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

Variable annuities can help with saving for retirement. Funds invested in 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.

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 investment options – typically underlying mutual funds – that you select. The value of your investment – usually referred to as your cash value – will fluctuate as the values of the underlying mutual funds increase or decrease.

Most insurance companies impose a minimum requirement on the 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. 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.

#### *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 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. Surrender charge periods vary by variable product but are generally around six to eight years for variable 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 generally begin around 7% of the purchase payment in year one and end around 2% of the cash value in the final year of the surrender charge period. Typically, the surrender charges 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 under annuities made before age 59½.

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

Insurance companies deduct fees and expenses from your cash value to cover fees and expenses. These ongoing fees and expenses commonly include 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.

In addition, you will indirectly pay the ongoing fees and expenses for the mutual funds 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 mutual fund's management fees, servicing fees, and 12b-1 fees, and are typically charged as an annualized rate against fund assets.

The commissions, surrender charges, and ongoing fees and expenses associated with variable products vary by insurance company and the type of variable product. More information regarding the commissions, surrender charges, and ongoing fees and expenses for variable products is available in the variable product's prospectus.

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

When you purchase a variable product, the issuing insurance company will pay a commission to us. While you do not pay this commission directly, the insurer factors this commission into the product's fees and costs in the case of variable products. 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. Although insurance commissions vary, we typically receive between 0% and 7% commission for a variable annuity sale, and also between 0% and 7% commission for a variable life insurance sale.

*For example, if you purchase a \$100,000 variable annuity from an insurer that pays us a 5% commission, we will receive, and you will indirectly pay, an initial commission of \$5,000. If you contribute another \$20,000 to your variable annuity contract as an additional payment, we will receive, and you will indirectly pay, a subsequent commission of \$1,000.*

#### *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. The percentage paid varies from insurer to insurer and can range from .01% to 1% of new sales and from .01% to 1% of cash value. Some insurers additionally or alternatively make contributions to cover the costs of the business meetings and events that we hold for our financial professionals. Not all of the insurers on our Retail Platform make these payments to us.

Marketing representatives of insurance companies or their affiliated distributors, often referred to as "wholesalers," work with our financial professionals to promote their variable products. These insurance companies and their wholesalers may pay for or provide training and education programs for our financial professionals. Insurance companies and their wholesalers may provide small gifts or business entertainment to our financial professionals, may cover expenses with our financial professionals attending business meetings they sponsor, and may provide financial assistance to financial professionals for their marketing events and activities.

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.

#### *More Information*

More information about variable products, including the insurance commissions and other fees and expenses built into the cost of the insurance, is available in the variable product's prospectus. You can request a copy of a variable product's prospectus from your financial professional.

In addition, more information on the mutual funds underlying the variable product's investment options, including the mutual fund's ongoing fees and expenses and overall expense ratio, is available in the mutual funds' prospectuses. You can request a copy of underlying mutual fund prospectuses from your financial professional.

## **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.

### **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 and our financial professionals get paid when you trade or invest based on our recommendations.* 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, non-traded alternative investments, 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.
- *For investments with multi-share class structures, we generally receive comparatively more compensation when we recommend you purchase or hold a share class that is likely to be more costly for you.* 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). You can find more information about the compensation paid on different share classes in the prospectus for the investment, or by asking your financial professional.
- *We get paid when you engage in a rollover transaction.* We can recommend that you roll over assets from your workplace retirement plan into an IRA account. 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.
- *We have an incentive to recommend the account type that pays us the most compensation.* We can recommend that you invest through different account type arrangements, such as through a brokerage account, an account directly held with the issuer of the investment (or its transfer agent), or an advisory account. Included within these choices is selecting one of our custodians or selecting between wrap and non-wrap (where transaction fees are charged) advisory accounts. Depending on factors such as the type and level of services you require as well as the frequency of trading in your account, one of these account types may be more cost-effective for you than the others. The availability of different account types incentivizes us and our financial professional to recommend the account type that results in the most compensation for us and your financial professional.

## 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. The material facts relating to these conflicts are as follows:

- *Some issuers of the investments our financial professionals recommend periodically pay us based on the total amount of sales we make of their investments or the total amount of customer assets we direct to them.* These payments are sometimes called “revenue sharing” payments. Revenue sharing payments incentivize us to sell you or recommend you hold investments that entail such payments rather than investments that do not entail these payments or entail comparatively lower payments. 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.
- *Our clearing firms also make revenue sharing payments to us.* Our clearing firms make periodic payments to us in the amount of our total customer assets invested in certain investments as of certain dates. These payments incentivize us to sell you or recommend you hold investments that entail such payments rather than investments that do not entail these payments or entail less of these payments. Our clearing firms also share fees such as inactivity, transaction, asset movement, and interest on your cash balances with us, which creates a conflict when recommending any event within the account, including the recommendation to hold cash in your account.
- *Our clearing firms reduces our costs or pays us bonuses based on transaction and assets under management totals at each firm.* Our firm is incentivized to recommend you open an account and execute transactions due to reduced costs or bonuses we receive upon reaching growth benchmarks. This conflict also includes which custodian your financial professional offers and recommends to you.
- *We execute certain fixed income trades through our firm.* When we execute fixed income transactions for your account, we profit from those trades. Our firm is incentivized to recommend fixed income transactions where we act as the executing broker dealer.
- *Some products pay us due diligence, origination, and marketing expense fees.* We are incentivized to recommend products paying us certain due diligence, origination, or marketing fees.
- *Products we recommend may have common investors, operator ownership, or be sponsored by our firm.* We are incentivized to offer products with common ownership or operator ownership with our firm or to offer products we act as managing broker dealer to the selling group.
- *We have an incentive to minimize our own execution costs.* Some securities transactions and investment strategies may be easier and less costly for us to execute than others. For instance, it may be less costly for us to execute a purchase order for a highly traded equity security through a national securities exchange than it would be for us to execute a purchase order for a thinly traded and relatively illiquid equity security through the OTC markets. These differential execution costs incentivize us to recommend investments with execution costs that are lower for us, even if they are not necessarily in your best interest.

## 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:

- ✓ *The amount of compensation we share with your financial professional depends on the investments recommended to you and your financial professional’s sales volume.* The amount of commissions, fees, transaction-based payments, ongoing payments, and other forms of compensation we share with financial professionals is dictated by a compensation grid. Our compensation grid is not investment neutral, meaning that the percentage of the compensation for any given transaction that

your financial professional receives varies based on the investment recommended. Our non-investment-neutral grid incentivizes your financial professional to recommend to you the investment that results in the highest net payout for your financial professional. In addition, our compensation grid has thresholds or bands that enable your financial professional to increase his or her compensation through an incremental increase in sales. Moreover, your financial professional's payout percentage can be adjusted monthly depending on your financial professional's average total sales and overall performance during the previous year. These thresholds, bands and payout percentage adjustments incentivize your financial professional to encourage more trading and the purchase of additional investments that result in your financial professional meeting certain sales targets and other metrics. This conflict is especially acute as your financial professional approaches the end of the month.

- ✓ *Non-cash compensation such as incentive trips and travel allowances we share with your financial professional depend on the investments recommend to you and your financial professional's total sales volume.* Your financial professional will earn incentive trips and travel allowances based on his or her total sales volume during a given time period. This incentivizes him or her to recommend transactions and is especially acute as your financial professional approaches the end of the calculation period. These incentives are not based on sales of any specific security or account type and are solely based on total revenue of any type earned by the financial professional.
- ✓ *Some new recruits have bonuses and loans that are dependent upon meeting sales targets.* Some of the financial professionals that are new recruits to our firm are provided with forgivable loans or back-end bonuses that are tied to total production by a milestone date. If your financial professional has received one of these loans or is eligible for one of these bonuses, they incentivize your financial professional to encourage more trading and the purchase of additional investments that result in your financial professional meeting production targets so that his or her loan will be forgiven by the firm or so that his or her back-end bonus will be paid by the firm. This conflict is especially acute as your financial professional approaches his or her milestone date.
- ✓ *Your financial professional may incur lower internal costs based upon which investment program or account type you select.* Your advisor may be incentivized to recommend one investment program or account type over another as we offer reduced internal fees based on total advisory assets under management in our non-wrap advisory program. This is a conflict and incentive to recommend an advisory account in our non-wrap program. Additionally, choosing one advisory custodian over another may result in reduced internal costs for the advisor.
- ✓ *Some of our financial professionals receive additional training and support from certain issuers.* Certain issuers and their affiliates provide some of our financial professionals with more training and administrative support services than others. If your financial professional receives this additional training and support, his or her use of these issuers' higher level of training and administrative support services incentivizes your financial professional to recommend investments issued by issuers that provide such training and services over issuers that do not, even if such investments are not necessarily in your best interest.
- ✓ *Some of our financial professionals' marketing efforts are subsidized by wholesalers.* Some of our financial professionals receive reimbursements or direct payments from the wholesalers of certain investments for marketing expenses they incur in connection with the distribution of wholesalers' investments. If your financial professional receives these wholesaler reimbursements or direct payments, they incentivize your financial professional to recommend investments that entail these wholesaler reimbursements or payments over investments that do not, even if such investments are not necessarily in your best interest.
- ✓ *Some financial professionals have outside business activities that compete for their time.* 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 relationship with you. You may research any outside business activities your financial professional may have on FINRA's BrokerCheck website at [BrokerCheck.FINRA.org/](https://www.brokercheck.finra.org/).