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# **National Securities Corporation**

## **REG BI DISCLOSURE**

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We provide this disclosure to you, our client, to inform you about the services we offer. Among other things, this 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**

National Securities Corporation (referred to herein as “The Firm”, “NSC”, “We”, “Our”, “Us”) is registered with the Securities and Exchange Commission (SEC) as a broker-dealer. Depending on your needs and your investment objectives, NSC may assist you with brokerage services. NSC’s affiliates offer brokerage and investment advisory services.

Brokerage and investment advisory services and fees differ, and it is important for you to understand these differences. You should carefully consider these differences when deciding which entity, type, or combination of types of services and accounts are right for you. Information regarding the differences between NSC and its affiliates is available in each entity’s Form CRS (Customer Relationship Summary) disclosures, which is available at [yournational.com/reg-bi](http://yournational.com/reg-bi).

Free and simple tools are available for you to research firms and financial professionals at [Investor.gov/CRS](http://Investor.gov/CRS), which also provides educational materials about broker-dealers, investment advisers, and investing.



## 1.1 Our Capacity

Some of our financial professionals are registered only with NSC to provide you with brokerage services and cannot offer investment advisory services, while some of our financial professionals are registered with both NSC and our investment advisory affiliate(s) and can therefore provide you with both brokerage and investment advisory services. Your financial professional will discuss with you whether a brokerage or advisory account is in your best interest.

All recommendations made by your financial professional regarding your broker-dealer account (your brokerage account) will be made in a broker-dealer capacity with NSC. If opening an advisory account, all recommendations regarding the account established for an advisory program through our investment advisor affiliate(s) will be made in an advisory capacity. Your financial professional will provide you with a supplemental disclosure at the outset of your relationship clarifying their capacity (i.e. whether servicing you in a broker or 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 of account types for your brokerage account, including, but not limited to, accounts held with our clearing firms; accounts held directly with the issuer of the securities purchased (sometimes referred to as directly held accounts); education accounts (e.g., college savings plans); retirement accounts (e.g., IRA accounts), where your investments will be held with the custodian of the IRA; and certain specialty accounts (e.g., margin accounts).

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. We do not have any minimum account requirements for our brokerage accounts, but some of the investments you can purchase through us have minimum investment requirements or certain investor qualifications. More information about these minimum requirements is available in an investment's offering document or prospectus.

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

Our financial professionals do not make investment decisions for you or manage your brokerage account on a discretionary basis. Because our financial professionals do not have discretionary investment authority, 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.

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***

Your financial professional may be registered with both NSC and our investment advisor affiliate(s). If servicing you in an advisory capacity (as an investment adviser), your financial professional may provide investment advice to you for a fee, and offer programs where your investments are managed by your financial professional and/or third party managers, including wrap programs. Your financial professional may also place orders for you as an investment adviser through a brokerage account with NSC or through a brokerage account at another broker-dealer. When acting in the capacity as an investment adviser, your financial professional will generally do so pursuant to a written agreement with you that sets forth the investment advisory relationship and associated obligations to you, and is



generally considered to have a fiduciary relationship with you under the Investment Advisers Act of 1940, requiring a duty of care and a duty of loyalty.

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

## **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.

Our financial professionals do not monitor your account after a securities transaction is effected for you, including those investments they recommend to you. However, our financial professional may voluntarily review your holdings from time to time and may or may not make recommendations to you based on these reviews. This voluntary review is not considered to be "account monitoring," and does not create an implied agreement with you to monitor your account.

We also offer the option to hold cash in a cash sweep vehicle, including money market funds or Federal Deposit Insurance Corporation (FDIC) insured accounts. 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. We also can provide securities based loans (non-purpose loans) through which you can collateralize securities held in your brokerage account to borrow funds that can be used for anything but to invest in financial securities or reduce a margin balance.

### ***Account Types***

In order to receive any of our brokerage services described above, you must first open an account with us. We offer an array of account types with different features and benefits that are intended to address different needs and objectives of our clients. 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); options 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 FDIC. We also offer margin accounts.

### ***Our Investment Philosophy***

We cater to individuals and families with varying investment profiles. Our platform includes publicly traded securities and investment funds, non-traded securities and products, and investment strategies of which one or more may meet the objectives of our clients.



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 is in your best interest, and does not place the interest of your financial professional or the Firm ahead of your interest.

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

**While we will take reasonable care in developing and making recommendations to you, securities involve risk, and you may lose money. There is no guarantee that you will meet your investment goals, or that our recommended investment strategy will perform as anticipated. Please consult any available offering documents for any security we recommend for a discussion of risks associated with the product. We can provide those documents to you, or help you to find them.**

### 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 that may benefit us, such as revenue sharing payments or mutual fund shareholder servicing fees. We do not have any minimum account requirements, although some of the investments you can purchase through us have minimum investment requirements. In addition, we do not limit our investment offerings to a select group of issuers.

We do offer proprietary products issued, sponsored, or managed by us or our affiliates. Our Investment Banking Department offers products that we manage when we assist companies to raise capital through initial public offerings, secondary offerings, and private placements, including private placements through special purpose vehicles. Each public and private offering carries unique risks. Prior to investing, you should carefully read the offering documentation, including but not limited to the offering's prospectus or private placement memorandum, which contains comprehensive disclosures specific to that offering.

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, some of our financial professionals are licensed to offer brokerage services only, whereas some of our other financial professionals are licensed to offer both brokerage and advisory services. In addition, some of our financial professionals are licensed to offer only certain types of investments, such as mutual funds, and are unable to offer the full range of investments we make available.
  - This is a material limitation on the securities or investment strategies that your financial professional may recommend to you, and you should discuss any such limitations with your financial professional. In addition, you may research your financial professional's experience and licenses on FINRA's BrokerCheck website at <https://brokercheck.finra.org/>.
- **Investment Limitations:** While we offer a wide range of investments, including investment funds and products, there may be certain types of investments or specific products that 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 annuity product or college savings plan. This means that our financial professionals are limited to recommending only those investments that we are authorized, or authorize them, to offer. This may be a



material limitation on the securities or investment strategies that our financial professionals may recommend to you, depending on your investment profile and interests.

- **Discretionary Investment Authority:** Our financial professionals do not make investment decisions for you or manage your account on a discretionary basis. Because our financial professionals do not have discretionary investment authority, 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.
- **Discounted Commissions:** We are a full-service brokerage firm, and are not a “discount” brokerage firm. Given the wide range of brokerage services we and our financial professionals offer you as a full-service brokerage firm, we do not offer discounted brokerage commissions. This is a material limitation on our services.

### 1.3 Fees and Costs

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

#### 1.3.1 Fees and Costs Associated with Account

You must first open an account with us to use our brokerage services. Our platform offers an array of account types with different features and benefits that are intended to address different needs and objectives of our clients. Depending on the type of account you open, you will pay certain fees and incur certain 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, which we then pass along to you in addition to any fees we may charge.

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

- ❖ **Annual Account Fees or Annual Maintenance Fees** – We generally charge you this fee for maintaining your brokerage account with us. This account 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 varies based on where your account is custodied and ranges between \$50 and \$75 and is charged annually. For retirement accounts, the annual fee ranges between \$35 - \$50.
- ❖ **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 varies based on where your account is custodied and can cost up to \$150 which is charged 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 retirement account with us. This fee varies based on where your account is custodied and ranges from \$50 to \$125 and is charged 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 5% - 10% depending on your account balance and where your account is custodied.
- ❖ **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 varies based on where your account is custodied and can cost up to \$30 per domestic wire transfer and \$75 per international wire transfer.

### **More Information**

*A complete list of account related service charges that you may incur (depending on the services rendered) are provided to you in a fee schedule upon account opening, and additionally when there is a material change to the fee schedule. To request a copy of your fee schedule or for additional questions, please contact your financial professional.*

## **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. More information about commission payments, sales charges and markups is discussed in further detail below.

In addition, investments that are interests in investment funds, such as mutual funds and UITs, or products, such as college savings plans and variable insurance products, bear ongoing fees and expenses that are embedded into the cost of the investment holding. You pay these ongoing fees and expenses indirectly because they are factored into the cost of the investment. More information about ongoing fees and expenses associated with investment funds and variable insurance products is available in the fund or product prospectus.

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 clients.

In addition to the commission charge, we charge a Service Fee for each transaction. This Service Fee takes into consideration many of the fees and services we and our financial professionals cover to service your account. Some of these fees may include, but are not limited to, delivery of confirmations, monthly account statements, account set up, reviews, real time quotation systems, and research. See your confirmation which provides you with the details of your transaction and includes the Service Fee. Service Fees may differ depending on your financial professional. Please speak to your financial professional to understand your Service Fee.

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**

We offer a wide range of equity securities (stocks), 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 stock in, for example, a publicly traded company, it is important for you to evaluate the risks associated with the company. As part of this evaluation, you will want to carefully review the company’s relevant disclosure documents, such as its initial registration statement and prospectus in the case of an initial public offering, or its most recent audited financial statement in the case of a secondary market



transaction. Stocks in public companies are registered with the SEC and in most cases, these companies are required to file reports with the SEC quarterly and annually. You may access these disclosure documents on the SEC's website at <https://www.sec.gov/edgar/searchedgar/companysearch.html>.

It is important to note that stock prices move down as well as up. There is no guarantee that a company's stock you hold will grow in value and there is a possibility that you can lose money when you invest in stocks. If a company goes bankrupt and its assets are liquidated, common stockholders are the last in line to share in the proceeds. The company's bondholders will be paid first, then holders of preferred stock. If you are a common stockholder, you get whatever is left, which may be nothing. Even when companies are not in danger of failing, their stock price may fluctuate up or down. If you have to sell shares on a day when the stock price is below the price you paid for the shares, you will lose money on the sale. A stock's price can be negatively affected by factors inside the company, such as a faulty product, or by events the company has no control over, such as political or market events. Stocks usually are one part of an investor's holdings. If you are young and saving for a long-term goal such as retirement, you may want to hold more stocks than bonds. Investors nearing or in retirement may want to hold more bonds than stocks. The risks of investing in stocks may be reduced by diversifying your stock investments across a number of stocks representing different sectors of the market. Investing in other kinds of assets that are not stocks, such as bonds, is another way to diversify your overall portfolio and reduce the risks of owning stocks.

### **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 averages \$1.25 to \$1.50 per \$100 (1.25 to 1.50 percent) of the value of the trade.

*For example, if you purchase \$10,000 of stock in a public company, you will typically pay commission between \$125.00 and \$150.00 in addition to the \$10,000 investment.*

You may pay a "markup" as a transaction cost to the Firm when you buy an equity security or a "markdown" when you sell an equity. Instead of charging you a commission to perform the transaction for you, we mark up or down the price of the equity from the price we paid for the security. The markup/markdown thus represents the difference between the price we paid for an equity security and the price at which it is sold to you or bought from you by us. The average markup/markdown is \$2.00 to \$2.30 per \$100 (2 to 2.3 percent of the price per share) of the value of the trade.

*For example, if you purchase \$10,000 of stock in a public company, and the price per share is \$10.00 (1,000 shares) the markup would be \$0.20 per share (2%) and you would pay \$10,200.00 for the transaction.*

### **More Information**

You may obtain information about equity securities generally by visiting the SEC's website at <https://www.investor.gov/introduction-investing/investing-basics/investment-products>

## **Bonds**

### **Characteristics**

We offer a wide range of bonds, such as corporate bonds, government bonds, and municipal bonds. Bonds are debt securities issued by corporations, governments, or other entities that pay fixed or variable interest rates to investors for a specific period of time. When the bond reaches maturity, the bond issuer generally returns the principal amount of the bond to investors. There are many types of bonds. The features, characteristics, and risks associated with bonds can vary significantly and include, but are not limited to:



- Credit risk - The issuer may fail to timely make interest or principal payments and thus default on its bonds.
- Interest rate risk - Interest rate changes can affect a bond's value. If bonds are held to maturity, the investor will receive the face value, plus interest. If sold before maturity, the bond may be worth more or less than the face value. Rising interest rates will make newly issued bonds more appealing to investors because the newer bonds will have a higher rate of interest than older ones. To sell an older bond with a lower interest rate, you might have to sell it at a discount.
- Inflation risk - Inflation is a general upward movement in prices. Inflation reduces purchasing power, which is a risk for investors receiving a fixed rate of interest.
- Liquidity risk - This refers to the risk that investors won't find a market for the bond, potentially preventing them from buying or selling when they want.
- Call risk - The possibility that a bond issuer retires a bond before its maturity date, something an issuer might do if interest rates decline, much like a homeowner might refinance a mortgage to benefit from lower interest rates.

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. If you sell a bond before it matures, you may receive more or less than the par value of the bond.

### ***Fees and Costs***

You will typically pay a "markup" as a transaction cost to us 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, we mark up the price of the bond to above its face value. When you buy bonds through us on the secondary market, the bonds will have price markups. The markup thus represents the difference between the price we paid for a bond and the price at which it is sold to you by us.

With new issues of bonds, the 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.

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. The average markup/markdown is \$1.20 to \$1.70 per \$100 invested or \$12.00 to \$17.00 per bond (since one bond is a \$1000 increment).



*For example, if you purchase 10 corporate bonds priced at \$1000 per bond, and the markup is \$15.00 per \$1,000 of the bond, you would pay \$10,000 for the market price of the bonds and then an additional \$150.00 markup, which means you would pay \$10,150 in total to purchase the bonds.*

### **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 <http://finra-markets.morningstar.com/BondCenter/Default.jsp>.

Information about government bonds is available on the Municipal Securities Rulemaking Board's (MSRB) website at <http://www.msrb.org/> and <https://emma.msrb.org/>.

## **Options**

### **Characteristics**

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

An option contract that gives you the right to buy the underlying asset is referred to as a "call" option, and an option contract that gives you the right to sell the underlying asset is referred to as a "put" option. Most options have certain standardized terms that indicate the nature and amount of the underlying asset, the expiration date, the exercise price, and whether the option is a call or put. Many securities that are publicly traded in the United States have put or call options contracts, which are available for trading on an exchange in the United States. Equity options, for example, are designated by reference to the issuer of the underlying security, the expiration month or expiration date of the option, and the option's exercise price and type (put or call).

Options, like other securities, carry no guarantees, and investors should be aware that it is possible to lose all of your initial investment, and sometimes more. For example, option holders risk the entire amount of the premium paid to purchase the option. If a holder's option expires "out-of-the-money" the entire premium will be lost. Option writers may carry an even higher level of risk since certain types of options contracts can expose writers to unlimited potential losses. Other risks associated with trading options include, but are not limited to: 1) Market Risk – Extreme market volatility near an expiration date could cause price changes that result in the option expiring worthless. 2) Underlying Asset Risk – Since options derive their value from an underlying asset, which may be a stock or securities index, any risk factors that impact the price of the underlying asset will also indirectly impact the price and value of the option.

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). You should read the ODD prior to buying or selling an option. The ODD contains required disclosures of the characteristics and risks of standardized option contracts. The ODD is available at <https://www.theocc.com/about/publications/character-risks.jsp>.

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. Please discuss this with your financial professional.

### **Fees and Costs**

You will typically pay a commission every time you buy or sell an option contract. You will pay this commission in addition to the premium associated with the option contract, which you will pay



regardless of whether you choose to exercise the option to buy or sell the underlying asset. The premium is not a standardized term of the option contract. The premium does not constitute a “down payment.” The premium is a non-refundable payment and is in addition to the commission. The commission is a one-time fee and can vary based on the number of contracts bought or sold. If you were to buy or sell between 11 and 25 contracts in a transaction, you will typically pay between \$5.00 and \$6.50 per contract.

*For example, if you purchase the option to buy 2,000 shares of a public company, you would buy 20 contracts and you will typically pay a \$120.00 (\$6.00 per contract) commission, regardless of whether you choose to exercise the option.*

#### **Additional Average Per Contract Fees:**

1-10 contracts are typically between \$12.00 to \$18.00 per contract  
11-25 contracts are typically between \$5.00 and \$6.50 per contract  
26-50 contracts are typically between \$2.00 and \$4.00 per contract  
51 and greater contracts are typically between \$1.50 and \$2.00 per contract

#### **More Information**

The options disclosure document referenced above is available at  
<https://www.theocc.com/about/publications/character-risks.jsp>.

## **Mutual Funds**

### **Characteristics**

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

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.

All funds carry some level of risk. With mutual funds, you may lose some or all of the money you invest because the securities held by a fund can go down in value. Dividends or interest payments may also change as market conditions change. A fund’s past performance does not predict future returns; but past performance can tell you how volatile or stable a fund has been over a period of time. The more volatile the fund, the higher the investment risk.

### **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.

In a limited number of cases, we also receive revenue share payments from mutual funds for placing client assets in the funds. These payments do not have a direct effect on the amount of your investment in fund shares after the sales charge is applied. Specifically, we may be paid revenue



share for assets placed in the following funds: 1) Non-transaction fee funds at Fidelity 2) Money market funds.

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 expenses can vary widely from fund to fund or fund class to fund class. Compare how sales loads, fees and other mutual fund expenses can impact your return using FINRA's Fund Analyzer tool at [https://tools.finra.org/fund\\_analyzer/](https://tools.finra.org/fund_analyzer/).

### **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. 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 5.75% front-end sales charge on your investment, you will pay a \$575 front-end sales charge and the remaining \$9,425 of your investment will be used to purchase Class A shares of the mutual fund.*

- Class C – Unlike Class A shares, this share class does not have a front-end sales charge, but generally charges a contingent deferred sales charge (CDSC) if you sell your shares in the first year of ownership. The amount of the CDSC is assessed as a percentage of your investment. Similar to Class A shares, Class C shares have ongoing 12b-1 fees. These fees are usually higher for Class C shares. When deciding which share class to invest in, it is important to consider front-end sales charges, ongoing fees, including 12b-1 fees, and the time horizon for your investment. Class A shares may be less expensive if you hold your position for a longer period of time. If you plan to hold your shares for a shorter period of time, then Class C shares may be more economical.

*For example, if you purchase \$10,000 of Class C shares of a mutual fund, you will not pay a front-end sales charge, 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 1.00% 12b-1 fee, so your initial \$10,000 investment will be reduced to \$9,900 after the first year as a result of the 12b-1 fee, 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. Class R shares do not have a front-end sales charge or CDSC like Class A or Class C shares, respectively, but Class R shares do have ongoing fees and expenses such as 12b-1 fees intended to finance the



distribution activities related to sales of the 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 0.5%, your \$10,000 investment will be reduced by \$50 after the first year as a result of the ongoing fees and expenses, assuming no appreciation of the shares in that one-year period.*

### **Fees and Costs – Breakpoints**

While it may make sense to own mutual funds from different mutual fund companies, it also may preclude you from receiving reduced sales charges. 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.

### **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.

A trailer fee may apply to certain mutual fund transactions. A trailer is included in the expense ratio and is the annual service commission paid by the mutual fund company to your financial professional. This fee is paid as long as you hold units in the fund. These fees generally range between 0.25% and 1% and are paid out of the fund’s management expenses. A trailer fee is a service commission. This means your financial professional is providing you with ongoing services such as answering any questions you may have about the performance of your fund(s), and other related matters.

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.

### **More Information**

More information on a mutual fund’s risks, 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](http://SEC.gov).

## **Closed-End Funds**

### ***Characteristics***

We offer 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.

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.

Some of the key risks associated with closed-end funds include: 1) Market risk - closed-end funds are subject to market movements and volatility, and the value can decrease due to movements in the overall financial markets. 2) Interest rate risk - changes in interest rate levels can directly impact income generated by a closed-end fund. Additionally, funds that have a portfolio with a significant allocation to fixed income assets, like bonds, may be more exposed to this type of risk as interest rates change. 3) Other risks - closed end-funds are exposed to other risks such as liquidity risk on the secondary market, credit risk, concentration risk and discount risk. If the closed-end fund includes foreign market investments, it will be exposed to the typical foreign market risks, including currency, political and economic risk.



More information and details on risks associated with closed-end funds is available in the fund's prospectus. You can request a copy of a fund's prospectus from your financial professional.

### **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 4.50% and 5.00% 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. This commission averages \$1.25 to \$1.50 per \$100 (1.25 to 1.50 percent) of the value of the trade.

*For example, if you purchase \$10,000 of shares in the initial offering of a closed-end fund that assesses a 4.50% sales charge on your investment, then a \$450 sales charge will be deducted and the remaining \$9,550 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 trading market, you will typically pay commission between \$125.00 and \$150.00 in addition to the \$10,000 investment.*

You may pay a "markup" as a transaction cost to us when you buy a closed-end fund on a trading market or a "markdown" when you sell a closed-end fund on a trading market. Instead of charging you a commission to perform the transaction for you, we mark up or down the price of the closed-end fund from the price we paid for the closed-end fund. The markup/markdown thus represents the difference between the price we paid for a closed-end fund in the open market and the price at which it is sold to you or bought from you by us. The average markup/markdown is \$2.00 to \$2.30 per \$100 (2 to 2.3 percent of the price per share) of the value of the trade.

*For example, if you purchase \$10,000 of shares in a closed-end fund on a trading market, and the price per share is \$10.00 (1,000 shares) the markup would be \$0.20 per share (2%) and you would pay \$10,200.00 for the transaction.*

Some interval funds also charge you a redemption charge when you accept an interval fund's offer to repurchase your shares. This redemption charge is a one-time fixed fee that ranges from 0% to 2.00% of the redemption proceeds. Unlike the sales charges and commissions, the redemption charge is not paid to us, but is paid to the fund to compensate it for expenses associated with the repurchase.

*For example, if you own \$10,000 of shares in an interval fund that assesses a 2.00% redemption charge, and you accept an interval fund's offer to repurchase all of your shares, a \$200 redemption charge will be deducted and you will receive the remaining \$9,800 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.

### **More Information**

More information on the risks, 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 closed-end funds we offer at [SEC.gov](https://www.sec.gov).



## **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.

Before investing in an ETF, you should read the prospectus, which provides detailed information on the ETF's investment objective, principal investment strategies, risks, costs, and historical performance (if any).

### ***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 this commission averages \$1.25 to \$1.50 per \$100 (1.25 to 1.50 percent) of the value of the trade.

*For example, if you purchase \$10,000 of stock in an ETF, you will typically pay commission between \$125.00 and \$150.00 in addition to the \$10,000 investment.*

You may pay a "markup" as a transaction cost to the firm when you buy an ETF or a "markdown" when you sell an ETF. Instead of charging you a commission to perform the transaction for you, we mark up or down the price of the ETF from the price we paid for the ETF. The markup/markdown thus represents the difference between the price we paid for an ETF and the price at which it is sold to you or bought from you by us. The average markup/markdown is \$2.00 to \$2.30 per \$100 (2 to 2.3 percent of the price per share) of the value of the trade.

*For example, if you purchase \$10,000 of shares in an ETF, and the price per share is \$10.00 (1,000 shares) the markup would be \$0.20 per share (2%) and you would pay \$10,200 for the transaction.*

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.

In a limited number of cases, we also receive revenue share payments from mutual funds for placing client assets in the funds. These payments do not have a direct effect on the amount of your investment in fund shares after the sales charge is applied. Specifically, we may be paid revenue share for assets placed in Non-transaction fee funds at Fidelity.

### **More Information**

More information about ETF's, including risks, 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 ETF's we offer at [SEC.gov](https://www.sec.gov).

## **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.

UITs hold a variety of securities. Each UIT may have different investment objectives, strategies, and investment portfolios. They also can be subject to different risks and fees and expenses. Fees reduce returns on fund investments and are an important factor that investors should consider when buying shares. Before investing in a UIT, you should carefully read all of the UIT's available information, including its prospectus.

### **Fees and Costs**

You will typically pay a sales charge when you buy units in a UIT's initial offering, or a commission when you buy or sell units in a UIT in a secondary trading market. You will pay this sales charge or commission in addition to the amount of the UIT you choose to buy or sell.

*For example, if you invest \$10,000 in a UIT's initial offering that assesses a 1.00% sales charge, then a \$100 sales charge will be deducted and the remaining \$9,900 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, you will typically pay a \$125.00 to \$150.00 commission in addition to the \$10,000 investment.*



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.

### ***More Information***

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

## **Alternative Investments - Private Placements**

### **Characteristics**

We offer a wide range of alternative investments, including private placements, with the goal of providing additional diversification outside of the traditional equity and fixed income markets. Unlike traditional equity and fixed income, alternative investments lack the same level of liquidity and available public information which may cause investors to be locked up for extended periods of time without complete knowledge of what the fund is invested in.

There are several types of private placement structures investors may choose from. One way to invest is through a hedge fund. Hedge funds allow investors the ability to utilize more advanced investment strategies such as leverage, going long or short, and use of derivatives. Hedge funds typically require an investor to have higher net worth and meet more stringent suitability standards than other investments due to their lack of liquidity and more complex investment structures. Hedge fund managers may charge higher upfront fees and include annual performance fees based on fund performance. Hedge fund managers justify their higher fees because their investing approach takes a high degree of knowledge, skill and experience. Oftentimes, they employ many experienced analysts and use sophisticated software and trading systems to execute their strategy. These come at a high upfront cost. Annual performance fees are designed to incentivize hedge funds to outperform based on the metric for the performance fee. These are meant to help align the manager's interest in the fund with that of the investors.

Another type of private placement are private equity funds. Private equity funds offer investors the opportunity to invest in private companies and businesses typically when they are in their early years of operation. The idea behind private equity is to invest early, grow your equity within the company, and exit through an initial public offering or some other type of monetizing event. Private equity funds have minimal to no liquidity and are meant for investors who can be invested over a long time horizon. Private equity managers may charge higher upfront fees and include performance fees upon liquidation of investments or the fund. Private equity managers justify their higher fees because of the high level of expertise, knowledge and time it takes to research and identify potential investments. Private equity companies may go through hundreds of potential investments before finding one that meets their investment criteria and future return projections.

Another type of private placement are special purpose vehicles (SPVs). SPVs are designed to hold certain investments under the umbrella of a parent entity. This separates the financial risk of the underlying investment from the parent entity and allows for investors to purchase shares of specific investments within each SPV. SPVs may hold many different types of investments such as equity or debt. The risks associated with SPVs are their lack of liquidity, lack of transparency, and potential layering of fees.



## Fees and Costs

Some hedge funds may allow for a placement fee along with an annual trail to be charged. This placement fee comes on top of the annual management fee charged by the fund manager. Placement fees usually range between 0% and 3.00% of the investment amount with annual trails generally ranging between 0% and 1.00%. A fund's annual management fee typically ranges between 1.00% and 2.50%. The placement fee is a one time charge where the annual trail and management fee is ongoing until the investment is sold.

For example, if you purchase \$100,000 worth of units in a hedge fund that assesses a 3.00% placement fee on your investment, then you will pay a \$3,000 fee and the remaining \$97,000 of your investment will be used to purchase units in the hedge fund.

Private equity funds typically do not allow for a placement fee unless it is in a "fund of funds" structure. A fund of funds allows for one fund to purchase units of many other private equity funds. Placement fees on fund of funds usually range between 0% and 3.00% of the investment amount. Private equity funds usually have an annual management fee and a back-end performance/incentive fee in place for the manager as a carried interest to incentivize the manager to achieve outperformance. The typical management fee may range from 0% to 2.00% and incentive fees typically range from 0% to 25.00% after certain hurdle rates have been met according to the fund terms.

For example, if you purchase \$100,000 worth of units in a private equity fund of funds that assesses a 3.00% placement fee on your investment, then you will pay a \$3,000 fee and the remaining \$97,000 of your investment will be used to purchase units in the private equity fund of fund.

Special purpose vehicles (SPVs) allow for a placement fee and a carried interest to be assessed on shares purchased within the fund. A placement fee is a sales concession to the financial professional for helping to raise capital for the offering. Typically, this placement fee will range between 5.50% and 10.00% of the investment amount. A carried interest is a share of any profits the general partners of the SPV may have regardless if they contributed any initial funds. The typical carried interest in SPVs will range between 10.00% to 15.00% after a successful divestment and certain goals have been achieved in accordance with the private placement memorandum. In addition, an annual fund management fee may be included. This typically ranges between 1.00% to 2.00%, but may vary depending on the size of the fund.

*For example, if you purchase \$100,000 worth of shares of a special purpose vehicle that assesses an 8.00% placement fee on your investment, then you will pay an \$8,000 fee and the remaining \$92,000 of your investment will be used to purchase units in the special purpose vehicle.*

*Then upon the fund's disposition, as an example, assume you are slated to receive \$200,000. Of that, the original investment was \$100,000. The SPV's carried interest is 20% of the gain above the original investment amount. The SPV will then receive \$20,000 of your gain and you will receive \$180,000 in return (\$100,000 is the return of your original investment and \$80,000 is the capital gain).*

### More Information

More information about private placements, including risks, and initial and ongoing costs and fees, is available in the offering documents or private placement memorandums associated with each private placement offering.

## 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.

Because non-traded REITs do not trade on a stock exchange, they involve special risks which include, but are not limited to:

- **Lack of Liquidity:** Non-traded REITs are illiquid investments. They generally cannot be sold readily on the open market. If you need to sell an asset to raise money quickly, you may not be able to do so with shares of a non-traded REIT.
- **Share Value Transparency:** While the market price of a publicly traded REIT is readily accessible, it can be difficult to determine the value of a share of a non-traded REIT. Non-traded REITs typically do not provide an estimate of their value per share until 18 months after their offering closes. This may be years after you have made your investment. As a result, for a significant time period you may be unable to assess the value of your non-traded REIT investment and its volatility.
- **Distributions May Be Paid from Offering Proceeds and Borrowings:** Investors may be attracted to non-traded REITs by their relatively high dividend yields compared to those of publicly traded REITs. Unlike publicly traded REITs, however, non-traded REITs frequently pay distributions in excess of their funds from operations. To do so, they may use offering proceeds and borrowings. This practice, which is typically not used by publicly traded REITs, reduces the value of the shares and the cash available to the company to purchase additional assets.
- **Conflicts of Interest:** Non-traded REITs typically have an external manager instead of their own employees. This can lead to potential conflicts of interests with shareholders. For example, the REIT may pay the external manager significant fees based on the amount of property acquisitions and assets under management. These fee incentives may not necessarily align with the interests of shareholders.

Before investing, review the initial prospectus and any prospectus supplements, as these documents will contain a more extensive discussion of the risks associated with traded and 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 1% and 5% of the investment amount. For a purchase or sale transaction in the secondary trading market, this commission averages \$1.25 to \$1.50 per \$100 (1.25 to 1.50 percent) of the value of the trade. The commission is a separate charge from the purchase or sale amount.

However, for certain non-traded REITs, the initial offering commission (which can be described as a commission and dealer manager fee) is significantly higher, and may be up to 8% of the investment amount. In addition to the upfront commission and dealer manager fee, there may be other expenses



included in the front-end load of the offering. This typically includes organizational and operating expenses that may range from 0%-3% to cover general costs to make the offering available such as marketing collateral, a sales staff, and promotional activity. The front-end load is deducted from the amount you originally invest into the offering.

*For example, if you purchase \$10,000 worth of shares in a public offering of a REIT that assesses a 5% commission on your investment, then you will pay a \$500 commission 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 market, you will typically pay a \$125.00 to \$150.00 commission in addition to the \$10,000 investment.*

*If you purchase \$10,000 worth of shares in a public, non-traded REIT that assesses a 12% front-end load (that includes a 7% commission) on your investment, then you will pay \$1,200 towards the front-end load (which includes a \$700 commission) and the remaining \$8,800 of your investment will be used to purchase shares in the REIT offering.*

You may pay a "markup" as a transaction cost to us when you buy a REIT in the secondary trading market or a "markdown" when you sell in the secondary trading market. Instead of charging you a commission to perform the transaction for you, we mark up or down the price of the REIT from the price we paid for the REIT. The markup/markdown thus represents the difference between the price we paid for a REIT and the price at which it is sold to you or bought from you by us. The average markup/markdown is \$2.00 to \$2.30 per \$100 (2 to 2.3 percent of the price per share) of the value of the trade.

*For example, if you purchase \$10,000 of shares in a REIT in a secondary trading market, and the price per share is \$10.00 (1,000 shares) the markup would be \$0.20 per share (2%) and you would pay \$10,200.00 for the transaction.*

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

### **More Information**

More information about REITs, including risks and costs and fees (including ongoing fees and expenses), is available in the REIT's prospectus.

## **College Savings Plans**

### **Characteristics**

We offer 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. There are tax consequences



with investing in or withdrawing funds from 529 plans. Consult your tax professional for further guidance.

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.

Investing in college savings plans does come with some risk. Unlike prepaid tuition plans, they don't lock in tuition prices. Nor does the state back or guarantee the investments. There also is the risk with most college savings plan investment options that you may lose money, or your investment may not grow enough to pay for college. For example, if you choose a plan option that invests in stock mutual funds, chances are that your invested funds' annual performance will mirror the trends of the stock market. Thus, you may lose money during a declining market.

### **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, Class B, and Class C. Each class typically has different fees and expenses, and therefore investment option performance results will differ as those fees and expenses reduce performance across share classes. You should also note that the amount of time you expect to hold your investment in a college savings plan and the age of the beneficiary 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 5.75% front-end sales charge on your investment, then you will pay a \$575 front-end sales charge and the remaining \$9,425 of your contribution will be used to purchase Class A shares of the investment option.*

- **Class B** – This share class is characterized by a back-end or contingent deferred sales charge (or CDSC), but has no front-end sales charge like Class A shares. This CDSC means that you pay a sales charge when you redeem shares from your investment option. The amount of the CDSC is typically assessed as a percentage of the investment option, and it declines over time the longer you hold your investment option shares and eventually is eliminated. The period of



decline typically lasts anywhere from five to eight years depending on the particular college savings plan and investment option. Once the CDSC is eliminated (typically at the end of that five-to-eight-year period), Class B shares usually convert to Class A shares. Until this conversion takes place, Class B shares will typically have higher ongoing operating expenses than Class A shares.

*For example, if you purchase \$10,000 of Class B shares of an investment option of a college savings plan that assesses a CDSC, you will not pay a front-end sales charge and the entire \$10,000 contribution will be used to purchase Class B shares of the investment option at the time of purchase. However, if you decide to redeem those same Class B shares two years later, you will pay a CDSC and receive the remaining funds from the investment. If your shares are worth \$11,000 at the time and the CDSC is 4.00%, you will pay \$440, and receive the remaining funds, totaling \$10,560.*

- **Class C** – Unlike Class A shares, this share class typically does not have a front-end sales charge, but generally charges a contingent deferred sales charge (CDSC) should you sell your shares in the first year of ownership. The amount of the CDSC is assessed as a percentage of your investment. Similar to Class A shares, Class C shares have ongoing 12b-1 fees. These fees are usually higher for Class C shares. So, when deciding which share class to invest in, it is important to consider front-end sales charges, ongoing fees, including 12b-1 fees and the time horizon for your investment. Class A shares may prove to be less expensive if you hold your position for a longer period of time. If you plan to hold your shares for a shorter period of time, then Class C shares may prove to be more economical.

*For example, if you purchase \$10,000 of Class C shares of an investment option of a college savings 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 C shares at the time of purchase. However, each year, your investment will be charged a 1.00% asset-based charge, 12b-1, so your initial \$10,000 investment will be reduced to \$9,900 after the first year as a result of the 12b-1 fee, assuming no appreciation 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 risks, 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. Additionally, as 529 education savings plans have fees and expenses that can



vary widely from plan to plan, the Financial Industry Regulatory Authority (FINRA) has developed a tool to help you compare how these fees and expenses can reduce returns, which can be found at [https://tools.finra.org/529\\_calculator/main](https://tools.finra.org/529_calculator/main).

## **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. *Some of the Firm's financial professionals may not be authorized to offer variable products.* 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, risks, 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 Annuity Nexus report for the specific variable product that your financial professional recommends to you. The Annuity Nexus report is a detailed product synopsis that provides explanations of the features of the product and the costs associated with the purchase.

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 annuity and life insurance policies, such as long term care benefits, 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 sub-accounts that you select). The value of your investment, usually referred to as your cash value, will fluctuate as the values of the underlying sub-accounts increase or decrease.

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.

Key risks associated with your variable life insurance policy, include, but are not limited to the following: 1) Policy lapse - if you do not maintain sufficient cash value to pay your policy fees and expenses, your policy may lapse. That means it will terminate without value and your beneficiary will



not receive any death benefit. A significant number of life insurance policies lapse. 2) Risk of loss - you can lose money in a variable life insurance policy, including potential loss of your initial investment. 3) Risks associated with investment options - the value of your investment and any returns will depend on the performance of the investment options you choose. Each underlying fund may have its own unique risks. You should review the investment option's prospectus before making an investment decision. You should consider a variety of factors with respect to each fund option, including the fund's investment objectives and policies, management fees and other expenses that the fund charges, the risks and volatility of the fund, and whether the fund contributes to the diversification of your overall investment portfolio. 4) Insurance company risk - the financial strength of the insurance company that issues the policy backs all guarantees, including the death benefit. If the insurance company experiences financial distress, it may not be able to meet its obligations to you.

Key risks associated with your variable annuity contract, include, but is not limited to the following: 1) Risk of loss - you can lose money in a variable annuity, including potential loss of your original investment. 2) Risks associated with investment options - the value of your investment and any returns will depend on the performance of the investment options you choose. Each underlying fund may have its own unique risks. You should review the investment option's prospectus before making an investment decision. You should consider a variety of factors with respect to each fund option, including the fund's investment objectives and policies, management fees and other expenses that the fund charges, the risks and volatility of the fund, and whether the fund contributes to the diversification of your overall investment portfolio. 3) Optional Features - optional features may carry investment restrictions. Or, the benefits of the optional features may be significantly reduced if withdrawals over a certain amount are made or if withdrawals are taken before you reach a certain age. 4) Insurance company risk - the financial strength of the insurance company that issues the contract backs all guarantees, including the death benefit, living benefits, and your annuity payments. If the insurance company experiences financial distress, it may not be able to meet its obligations to you.

#### ***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. National does not offer any variable annuities with a surrender schedule greater than 10 years.

The surrender charges also vary by variable product, and generally begin around 10% of the purchase payment in year one and end around 1-2% 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. National does not offer any variable annuities with a surrender charge greater than 10%.

Some products offer an optional rider or a different share class at an additional cost or increased mortality and expense (M&E) to the client in exchange for a shortened or waived surrender schedule.

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

Insurance companies deduct fees and expenses from your cash value to cover fees and expenses. These ongoing fees and expenses commonly include M&E 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 sub-account’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. All variable annuity commissions received are passed directly to your financial professional. For variable life insurance, between 0% and 7% of the commissions are retained by us and the remainder is passed directly to 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 2% and 7% commission for a variable annuity sale, and 22% commission for a variable life insurance sale.

*For example, if you purchase a \$100,000 variable annuity from an insurer that pays us a 7% commission, we will receive, and you will indirectly pay, an initial commission of \$7,000. If you contribute another \$50,000 to your variable annuity contract as an additional payment, we will receive, and you will indirectly pay, a subsequent commission of \$3,500. Commissions on annuity purchases are not paid by you through deductions to the contract value. The insurance company pays the commissions.*

### **Fees and Costs – Training, Education, and Conferences**

Insurance companies and their wholesalers may pay for or provide training and education programs for our financial professionals. Additionally, insurance companies may be invited to our conferences where certain of their expenses for attending are covered by us. You do not pay these expenses directly. However, the expenses are built into the pricing of the variable product, so you indirectly pay for this cost.

#### **More Information**

More information about variable products, including the risks, 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 underlying sub-accounts, the variable product's investment options, including the sub-account's ongoing fees and expenses and overall expense ratio, is available in the product's prospectus. You can request a copy of the product prospectus 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 interest (such as an economic benefit) might incline us or a financial professional, consciously or unconsciously, to make a recommendation that is not disinterested. Some of these conflicts exist between our customers and both our firm and our financial professionals, while others exist between our customers and our firm, or between our customers and our financial professionals. 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 our 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 pay our financial professionals a portion of the transaction-based payments that we receive. These transaction-based payments, usually called commissions, incentivize us and your financial professional to encourage you to trade more and purchase additional investments that result in additional revenue for our firm and your financial professional.
- ✓ ***For some investments you purchase based on our recommendation, we receive payments from a third-party that are in addition to the transaction-based payments described above.*** This is typically the case when you purchase mutual funds, college savings plans, and variable products. For example, certain issuers make ongoing payments to us based on invested assets (and not just new investments), such as 12b-1 fees, shareholder servicing fees or trail compensation. These third-party payments are described in further detail in the prospectus or offering materials for the investment, which will be made available to you in connection with any purchase. All of these third-party payments incentivize us and your financial professional to sell you or recommend you hold investments that entail these payments rather than investments that do not entail these payments or entail comparatively lower payments.
- ✓ ***We are compensated on securities transactions that we execute with respect to funds or accounts managed by our investment advisory affiliate(s). Any advisory or management fees paid to such affiliate(s) could present a conflict for us because it may create an incentive to encourage you to invest in such funds or accounts.***
- ✓ ***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 will acquire for your IRA account and hold in the 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 results in additional fees and revenues for us.** 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. We typically receive miscellaneous account and service fees and other compensation (which are in addition to any commissions, markups, other transaction-based fees or advisory fees) in connection with a brokerage account or advisory account that we do not receive in the case of a directly held account. The availability of different account types incentivizes us and your financial professional to recommend the account type that results in additional fees and revenues for us and your financial professional.
- ✓ **We may be executing a transaction for you in a principal capacity.** We may buy a security from you, or sell you a security from our own account (as principal). Additionally, if we transact with you as a market maker in a principal capacity, we will disclose to you on your confirmation that we are operating in this capacity when effecting a transaction. A mark-up is the difference in price between the current market price for the security and what we charged you for executing your security transaction. Conversely, if you place a sell order, we may buy your security to place into our inventory at the current market price and charge you for executing the transaction, thereby reducing your sales proceeds. This difference, or execution charge, is called a mark-down. Confirmation statements disclose mark-ups and markdowns only for exchange-traded stock trades. For over-the-counter security transactions, such as bond trades, confirmations only show the price you paid; they do not break out any mark-up/mark-down. In some instances, we may enter the marketplace to purchase the security for ourselves and then turn around and sell you the security. We may choose to sell you the security at the same price for which we purchased the security, plus a mark-up. This is generally called a riskless principal transaction. It is called riskless because when purchasing the security, we already know that we can sell it to you at a certain price. Because we earn compensation (mark-up/mark-down) in principal transactions, we may have an incentive to trade with you on a principal basis and to recommend securities that we hold in inventory.



- ✓ ***We, and in some cases, our financial professionals, receive a portion of the margin interest charged to you when you open and maintain a margin account.*** This may create an incentive for us or our financial professionals to recommend that you open a margin account. A margin account is a type of brokerage account in which we or our clearing firm lends you cash, using the account as collateral, to purchase securities. This can be a beneficial tool. However, margin accounts can be very risky and they are not appropriate for everyone. Be sure to carefully review your margin agreement before you choose to open a margin account.
- ✓ ***We and our financial professionals are compensated through interest collected on cash sweeps and free credit uninvested cash.*** Our brokerage accounts offer the option to hold free cash balances in either money market funds or a bank account insured by the Federal Deposit Insurance Corporation (cash sweeps) based on your eligibility and sweep election. Clients are not charged for this service. Additionally, if you are not participating in a sweep vehicle, then you may have a free credit balance (i.e. the portion of the account that consists of cash awaiting investment). We use free credit balances in the ordinary course of our business. The use of free credit balances generates revenue for us, in the form of interest and income, which the Firm retains as additional compensation. Your financial professional does not receive any direct compensation from the free credit balance.
- ✓ ***We and our financial professionals are compensated by service fees as part of your transaction costs.*** When you buy or sell securities, your charges will generally fall into two categories: a commission or markup associated with the trade; and in some cases, miscellaneous fees for other expenses. Service fees help reimburse us and your financial professional for expenses incurred in performing the transaction or a service for you. These fees may be labeled in a variety of ways, including as postage and handling charges, administrative service fees, clearing and transfer fees, execution facility fees, office overhead fees, supervision fees or third-party charges. The fees must be fair and reasonable and varies among our financial professionals.
- ✓ ***We and our financial professionals are compensated when you enter into a stock loan or securities loan agreement.*** We offer stock-based loan programs as part of our services. This allows you to pledge fully-paid stock as collateral for loans. We and your financial representative may have an incentive to encourage this type of agreement. We share, with the lender, the interest on your loan. Additionally, your financial representative may be able to receive additional commissions associated with the investments you make using the loan funds. This may be a beneficial tool for you. However, stock loan agreements can also be very risky and they are not appropriate for everyone. Be sure to carefully review your stock loan agreement before you choose to enter into this arrangement.
- ✓ ***We and our financial professionals are compensated when you enter into a securities based line of credit arrangement.*** We may receive a referral fee for outstanding balances that you have when you establish a securities based line of credit using the assets in your account as collateral to borrow funds for non-purpose uses (i.e. for uses other than purchasing more financial securities or to pay down margin loans). This may create an incentive for us or our financial professionals to recommend that you establish a securities based line of credit. While this can be a beneficial tool for you, it does come with risks and may not be an appropriate option for you. Be sure to carefully review the securities based line of credit program information and paperwork before you choose to open a line of credit and borrow funds.



- ✓ ***We and our financial professionals are compensated from 12b-1 fees and may have an incentive to recommend investments that offer these benefits.*** 12b-1 fees are fees paid out of mutual fund or ETF assets to cover the costs of distribution and shareholder services. Distribution fees include fees that compensate us and our financial professionals to sell fund shares and to pay for expenses associated with marketing, selling, advertising, and printing sales literature. Shareholder service fees are fees paid to us and our financial professionals to respond to investor inquiries and provide investors with information about their investments. Shareholder service fees can also be paid outside of 12b-1 fees.
- ✓ ***We and our financial professionals are compensated when we pass on certain service charges to you at a mark up from the charges assessed to us by our clearing firms (rebillables).*** Examples of service charges include account maintenance fees, ticket charges, wire fees, bounced checks, legal transfers, termination fees, charges for insufficient funds upon settlement date, and safekeeping fees. A complete list of account related service charges that you may incur (depending on the services rendered) are provided to you in a fee schedule upon account opening, and additionally when there is a material change to the fee schedule. A portion of these fees include a mark-up from the charges assessed to us by our clearing firms. To request a copy of your fee schedule or for additional questions, please contact your financial professional.

## 2.2 Conflicts for Our Firm

Conflicts between our 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 of the 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 typically for fixed amounts and are not tied to total sales or customer assets. Even so, these payments incentivize us to sell you or recommend you hold investments issued by issuers that make these payments rather than investments of issuers that do not make these payments or make comparatively lower payments.
- ✓ ***Our clearing firm also makes revenue sharing payments to us.*** Our clearing firm makes periodic payments to us based on 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.
- ✓ ***Certain executing broker-dealers pay us for order flow.*** Certain executing broker-dealers offer us payments for order flow, which refers to the compensation we receive for routing securities transactions to executing broker-dealers for execution. These order flow payments incentivize us to route orders to executing broker-dealers that offer order flow payments. We



are required to make this report publicly available on a quarterly basis, which can be found at [yournational.com/regulatory-information/](http://yournational.com/regulatory-information/) by clicking on "Rule 605 and 606".

- ✓ ***We receive volume discount credits on ticket charges from our clearing firms when we exceed a certain level of firm-wide trading.*** Ticket charges are fees assessed to us by our clearing firms based on our negotiated contracts (generally on a product by product basis) for servicing and facilitating settlement of transactions. This credit is not shared with our financial professionals. However, we pass our ticket charges on to our financial professionals at the same or at a marked up price as part of our service. Our financial professionals may pass this cost on to you at the same or at a marked up price as part of their service.
- ✓ ***Section 31 transaction fees are absorbed by you.*** These fees are designed to recover the costs incurred by the government, including the SEC, for supervising and regulating the securities markets and securities professionals. The SEC does not impose or set any of the fees that investors must pay. Instead, self-regulatory organizations (SROs) such as the Financial Industry Regulatory Authority (FINRA) and all of the national securities exchanges must pay transaction fees to the SEC based on the volume of securities that are sold on their markets. The SROs have passed a portion of these fees on to firms such as ours. We then pass these fees on to you which appear on your trade confirmation.
- ✓ ***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 may incentivize us to recommend investments with execution costs that are lower for us.

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

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

- ✓ ***The amount of compensation we share with some of our financial professionals depends on the investments recommended and their production volumes.*** The amount of commissions, fees, transaction-based payments, and ongoing payments we share with our financial professionals is dictated by compensation grids. Compensation grids vary among our financial professionals and take into account factors such as the time and complexity needed to service an account, as well as the expertise, geographic location, and performance of each financial professional. Some of these compensation grids are 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. Non-investment-neutral grids may incentivize our financial professional to recommend the investment that results in the highest net payout for the financial professional. In addition, some of our compensation grids have thresholds or bands that enable our financial professional to increase his or her compensation through an incremental increase in sales. Moreover, the financial professional's payout percentage can be adjusted at certain intervals depending on the financial professional's total production volume and overall performance. These thresholds, bands and payout percentage adjustments may incentivize the financial professional to encourage more trading and the purchase of additional investments that result in the financial professional meeting certain sales targets and other metrics. This conflict is especially acute as the financial professional approaches a sales threshold or the deadline for meeting production



volumes. Also, the commissions and other fees charged to our clients for the same or similar products will generally vary from one financial professional to another within our Firm.

- ✓ ***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.
- ✓ ***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.
- ✓ ***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 may incentivize your financial professional to recommend investments that entail these wholesaler reimbursements or payments over investments that do not.
- ✓ ***Some financial professionals have outside business activities that compete for their time.*** Some of our financial professionals engage in business activities that are not part of the Firm's business and thus are not engaged on a full-time basis in the Firm's business. These outside business activities can cause your financial professional to engage in activities that could create a conflict of interest for your financial professional. You may research any outside business activities your financial professional has on FINRA's BrokerCheck website at <https://brokercheck.finra.org/>.
- ✓ ***Our financial professionals may be awarded with warrants associated with selling shares in public and private offerings to you after reaching certain sales thresholds.*** This award of warrants may incentivize your financial professional to encourage the purchase of additional shares of offerings. Additionally, the commission payout to your financial professional may be higher when recommending one offering over another. Differences in commission may incentivize your financial professional to encourage the investment that results in a higher payout to your financial professional.