

# REGULATION BEST INTEREST DISCLOSURES FOR BROKER-DEALER CLIENTS

EFFECTIVE JUNE 30, 2020



Arete Wealth Management, LLC (Arete) is registered with the U.S. Securities and Exchange Commission (SEC) as a broker-dealer and is a member of FINRA, the Securities Investor Protection Corporation (SIPC), and the National Futures Association (NFA).

This disclosure document summarizes important information concerning the scope and terms of the brokerage services we offer and details the material conflicts of interest that arise through our delivery of brokerage services to you. We encourage you to review this information carefully, along with Arete's Client Relationship Summary (Form CRS), additional written investment-specific and account-specific disclosures, and any verbal disclosures made by your Arete representative in connection with his or her recommendations to you. You can also visit [Investor.gov/CRS](http://Investor.gov/CRS) to access free and simple tools to research Arete and its financial professionals, and to access educational materials about broker-dealers, investment advisors, and investing.

## Capacity

Arete has an affiliated investment advisor, Arete Wealth Advisors, LLC. Depending on your needs and investment objectives, you may want to use our broker-dealer services, investment advisory services, or both. Arete's brokerage and advisory services are governed by different laws and regulations and also different terms and conditions within your client agreements. As a result, Arete's legal duties and contractual obligations to you will differ depending upon whether we are acting as broker-dealer or an investment adviser.

You should carefully consider these differences when deciding which type, or combination of types, of services and accounts are right for you, and you should discuss these differences and address any questions you have with your financial professional. If you have any advisory accounts with us, you should read Arete's Form CRS and Form ADV.

If you have one or more brokerage accounts and investment advisory accounts with us, your financial professional will tell you which of your accounts he or she is discussing when making recommendations to you. Arete will act solely in its capacity as a broker and not as an investment adviser in performing its duties with respect to your brokerage accounts. Your brokerage account will be non-discretionary, which means that Arete will only buy or sell securities for your account with specific approval from you. Arete will not make investment decisions for your brokerage accounts or manage them on a discretionary basis.

As a broker, we may advise you as to types of securities accounts, what securities to buy or sell, investment strategies involving securities, and recommendations to roll over or transfer assets from one type of account to another. When we make a securities recommendation, investment strategy recommendation or roll over recommendation, the recommendation is made in our capacity as a broker-dealer unless otherwise stated at the time of the recommendation. Any such statement will be made orally to you.

When we act as your broker, we are not your fiduciary. Rather, when our financial professionals make a brokerage recommendation to you, we are obligated to ensure that the recommendation is in your best interest, which means that we will not put our interest ahead of yours. We will determine whether a recommendation is in your best interest by considering reasonably available alternatives, and based on your stated net income or net worth, overall investment objective and time horizon, risk tolerance, financial investment experience, liquidity and financial needs, tax status, and other information you provide us.

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## Fees and Costs

### Fees and Costs Associated with Transactions and Holdings

You will pay transaction-based fees each time you trade in your brokerage account or make a new investment. These transaction-based fees are generally referred to as a “commission,” “markup,” “sales load,” or a “sales charge.” The transaction-based fees vary depending on the investment and the size or amount of the transaction, and also depend on certain other factors such as:

- Underlying product selection
- Your brokerage service model and account type
- Size of your transaction and/or overall value of your account
- Frequency of your trade activity

You may be assessed additional transaction fees in your brokerage account. These include fees for clearing brokerage services such as postage fees and fees assessed by the Securities and Exchange Commission on equity sales.

These transaction-based fees present a conflict for us because they create an incentive to encourage you to trade more and make additional investments.

In addition, investments that are interests in investment funds, such as mutual funds, closed-end funds, interval funds, and Unit Investment Trusts (UITs), or products such as 529 College Savings Plans (529s) 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.

### Fees and Costs Associated with Your Account

You will pay fees for various operational services provided to you through your brokerage account. These fees include:

- Account transfer fees for when you transfer your account to another brokerage firm.
- IRA account termination fee for when you close your IRA account (except when you take a full IRA distribution after the age of 59½).
- Annual account fees. Costs will vary depending on the account type.
- Account maintenance fees, such as wire fees, securities transfer fees, returned or stopped checks, physical stock issue, and stock deposit or direct registration deposit rejections.

These fees are set at least annually and communicated to you through information included in your account statement and other notifications. These fees do not apply to all account types and may be waived under certain conditions.

You should understand that, depending on the brokerage service model you choose, the fees and costs you are charged may vary for the same or similar products, accounts and services. For more information concerning our administrative and service fees, ask your financial professional.

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## How We Are Compensated

We receive direct and indirect compensation in connection with your accounts. Direct compensation is taken directly from your account. Indirect compensation is paid to us in ways other than directly from your account and may impact the value of the associated investments in your account. Depending on the type of investment you select, such as mutual funds, ETFs, or variable annuities, there can be additional costs beyond up-front commissions for the purchase and sale of securities, such as syndicate-related costs as well as fees that are charged on an on-going basis for as long as you hold the investment.

The commissions you pay when buying and selling securities in a brokerage account may be higher or lower than the fees paid if you held those securities in an advisory account, depending on the number of securities transactions, the type of securities purchased or sold, and other variables.

The sections below describe the compensation we receive in connection with various investments that may be available to you. In many cases, detailed information regarding third-party payments we receive in connection with particular investments is provided in the prospectus or other offering document for the particular investment, which you can request from your financial professional at any time and will be made available to you in connection with any purchase.

## Stocks, Rights, Warrants, Secondary Market Closed Ends Funds (CEFs) and Exchange Traded Products (ETPs)

Stocks (common and preferred), rights, warrants, CEFs, and ETPs are all traded on a national stock exchange, such as the New York Stock Exchange. You can elect to buy or sell these instruments at the current market price, or seek to do so at a price that you establish (a "limit price"). Depending on your account's service model, the commissions we charge you (and pay a portion of to your financial professional) for trades of these instruments will range from 0% to 5% depending on the size of the transaction, with a minimum commission that depends on the service model. Commissions are subject to discounting at your financial professional's discretion, with certain restrictions. In addition to the commission on the trade, CEFs and ETPs have internal expenses that will be deducted from the value of the investment. For more information regarding these fees, please reference the respective investment's prospectus.

## Commission Rates for Equity and Index Options

Options are investment instruments that give you the ability to buy or sell the underlying stock or index at a pre-set price in the future. Options are traded on an option exchange, such as the Chicago Board Option Exchange, and can be traded at the market price or at a limit price. The commissions we charge you (and pay a portion of to your financial professional) for options trades costs will range from \$36 to no more than 50% of the principle amount, depending on the size of the transaction, with a minimum commission that is dependent on the service model.

## Variable Annuities

We offer variable annuities from certain insurance companies. Those companies pay us commissions of up to 7% of the amount invested for each sale of their annuities, as well as ongoing trail commissions. The commissions and trails they pay us vary by product type and may vary by insurance carrier.

Certain annuity contracts also include optional benefit features and riders, which may entail additional fees charged on top of the base fee associated with the contract. These fees range from 0.25% to 4% on an ongoing basis. Note that if you terminate an annuity contract before the conclusion of its surrender period, the annuity carrier will charge a surrender fee based on the value of the contract. Surrender charges will start as high as 8.5% and will decrease annually as you get closer to the end of the surrender period. We do not receive the surrender charge.

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Variable annuities typically charge Mortality and Expense (M&E), Administrative Expense, and Sub-Account Expense fees on the underlying value of the annuity. The M&E fee on average ranges from 0.85% to 3% and the Administrative expense typically ranges from 0% - 0.3% annually. Variable annuity sub-accounts are similar to mutual funds, and charge ongoing expenses for fund management and administration. The expenses for these underlying investments range from 0.25% to 3.0% annually, and are typically charged daily on a prorated basis as a percentage of your assets. Please refer to the prospectus for more information on sub-account expenses.

## Variable Life Insurance

We offer variable life insurance from certain insurance companies. The initial commission can be up to 7% of the first year's premium, followed by 3% to 5% commissions per year as long as the policy remains in effect. Typically with life insurance, the premiums paid must first cover the cost of the insurance and the remainder of the premium is used to fund the cash value. Similar to a variable annuity, the cash value invests in sub-accounts, and certain life insurance contracts also include optional benefit features and riders, which may entail additional fees charged on top of the base fee associated with the contract. A surrender charge may also be assessed to withdraw any cash value, based on the age of the policy. For additional information, please see the applicable product prospectus.

## Market Linked Structured Products

Subject to due diligence review, we offer limited forms of structured products, which are more complex securities whose value is based on a designated reference asset, market measure or investment strategy. Structured products can be issued in various forms, including publicly offered and privately placed debt securities, publicly offered and privately placed pooled investments (such as CEFs and trusts), and certificates of deposit. Some structured products are listed on securities exchanges, while others trade in over-the-counter secondary markets.

Structured products are typically sold as new issue offerings. For such an investment, the issuer would pay us a fixed commission of up to 5% based on the principal amount of your purchase. If you were to buy \$10,000 of a structured product with a commission rate of 5%, the entire \$10,000 is initially invested, and the issuer would pay us a commission of \$500. For additional information, please see the applicable product prospectus.

## Alternative Investments

We offer a variety of other alternative investments, including 1031 exchange programs, qualified opportunity zone funds, limited partnerships, non-traded business development companies and real estate investment trusts, and certain other alternative offerings. These alternative investments typically are offered in private offerings and typically are available only to retail customers who qualify as "accredited investors," as defined in Rule 501 of Regulation D under the Securities Act of 1933.

As a general matter, these offerings are "alternative" because they are unlike traditional securities held in a broker-dealer account, such as stocks and bonds, and are generally not traded on an exchange. These alternative investments are typically subject to illiquidity and other special risks and some may be speculative and involve substantial risk. In some cases, it may be difficult to determine the current value of the asset. There can be no assurance that the stated investment objectives of an alternative investment will be met. Units or shares of these types of investments may fluctuate in value. Therefore, at the time of redemption, they may be worth more or less in value than the original amount invested.

Each alternative investment is structured differently. The fees and commissions we earn on each sale are disclosed in the offering documents for the specific investment. Any ongoing fees or upfront commission paid to us will vary based on the particular interest or share class selected. Fees for alternative investments generally include a placement fee and an investment trail, ranging from 5% to 12.5%, that pays us over time. The performance-based compensation or carried interest may vary across private funds and may vary within funds in relation to types of investments or certain clients. To the extent alternative investments

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provide differing levels of compensation to the firm and your financial professional, such recommendations create conflicts of interest. In order to minimize/alleviate this conflict of interest, we disclose this conflict of interest to you and supervise your financial professional's recommendations with respect to alternative investments. Additional information is provided in each alternative investment's subscription documents or other offering materials.

## Annuities

Under arrangements with insurance companies, we receive commissions from the insurance companies for the sale of annuities, as well as trail commissions. Commissions and trails paid to us vary by product type and may vary by insurance carrier.

## Debt Securities

For debt securities, including preferred securities and CDs, we may apply a charge (i.e., markup) of up to 5% of the amount of your secondary market transaction. You will receive a confirmation after every trade which will disclose the markup/markdown charged to the trade. The amount of our markup/markdown on a bond transaction will depend on a number of factors and the particular circumstances of each transaction, including: type of bond (corporate, municipal, government); transaction size; credit quality; unit price; maturity date; and liquidity.

## Mutual Funds

All mutual funds have costs associated with their sales and operation that will have an impact on your investment returns. These costs may include transaction costs, such as front-end or contingent deferred sales charges (often referred to as "loads"), which you will pay directly. Sales charges vary among mutual funds and share classes. If you are considering a load fund, be aware of any sales charge breakpoint discounts that may apply. You may be eligible for sales charge discounts based on the size of your purchase, current holdings or future intended purchases, as well as holdings in related accounts. You should also be aware of any alternative share classes available and that some mutual fund families offer funds with no sales charge. You should also consider a fund's investment objectives and its risks to determine if it meets your goals and risk tolerance.

Mutual funds 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 the mutual fund's continued annual operating expenses (sometimes referred to as its "expense ratio"), such as paying the fund's investment manager, accounting and audit expenses, and recordkeeping expenses. These ongoing fees and expenses are typically charged daily as a percentage of your assets. You pay these fees and expenses indirectly because they are deducted from your assets on an ongoing basis. These fees range from 0.25% to 2%.

12b-1 fees, also known as trails, are paid by the fund and paid to us out of fund assets under a distribution and servicing arrangement to cover distribution expenses and sometimes shareholder service expenses that we may provide on the fund's behalf. Shareholder servicing fees are paid to respond to investor inquiries and provide investors with information about their investments. These fees are asset-based fees charged by the fund family. These fees range from 0.00% to 1.00%, but generally these fees are less than 0.85%.

## Unit Investment Trusts (UITs)

Our UITs consist of Equity and Fixed-Income UITs. Our compensation depends on the type and terms of the UIT portfolio selected. The types of fees we receive are disclosed in the prospectus issued by the UIT provider. Your financial professional can provide you a copy of the most recent prospectus. The UIT provider deducts fees as compensation from the proceeds available for investments for marketing and distribution expenses, which may include compensating us as described in each UIT prospectus.

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## Type and Scope of Services

Before we recommend that you work with us through either a brokerage or advisory relationship, rollover or transfer your assets from a retirement plan, or invest your assets in a particular investment product or strategy, we will collect information about you, including your age, other investments, financial situation and needs, tax status, investment objectives, experience, time horizon, liquidity need, risk tolerance, and other information we think is relevant. Any recommendations we make to you will be based on the information you provide and our assessment of the investment or service's potential risks, rewards, and costs. In making our assessments, we generally rely on the offering materials accompanying such products and services.

We offer the opportunity to open accounts that will be held with our clearing firm as well as held directly with the issuer of the investments purchased. In both cases, we offer many different account types, including individual and joint accounts, custodial accounts, Delivery Versus Payment (DVP) accounts, estate and trust accounts, partnership accounts, education accounts (i.e., 529 College Savings Plans and tax-free Coverdell accounts), and retirement accounts as outlined in our account agreement(s) (i.e., IRA, Roth IRA, or SEP-IRA accounts), specialty accounts (i.e., cash or margin accounts), and accounts with access to options trading. You should refer to our account agreement(s) for more information concerning available account types or speak with your financial professional.

As a broker-dealer, we and our financial professionals can recommend and effect securities transactions for you with your consent, including buying and selling stocks, bonds, options, mutual funds, closed-end funds, exchange-traded funds ("ETFs"), unit investment trusts ("UITs"), variable annuities, variable life insurance policies, alternative investments, and other securities that can be held in your broker-dealer accounts. We provide a number of services related to your investments in securities, including, but not limited to, taking your transaction orders, executing your securities transactions, providing general investment information, and providing administrative and other services relating to your broker-dealer accounts and investments. Our financial professionals also provide recommendations concerning whether to buy, sell, or hold securities. Our services also include recommendations of investment strategies involving securities, including recommendations of account types and rollovers or transfers of assets, such as rolling over workplace retirement plan assets into an individual retirement account ("IRA"). In addition, we offer the option to automatically invest cash held in accounts custodied by National Financial Services LLC ("NFS"), our custodian and clearing firm, in money market funds or taxable interest-bearing cash options designated as cash sweep vehicles while awaiting reinvestment. We also offer access to securities-backed lines of credit ("SBLOCs") offered by third-party lenders, which allow you to borrow cash secured by the securities held in your broker-dealer accounts, and margin account services, where NFS, our custodian and clearing firm, extends you credit (a loan) for the purpose of purchasing, carrying, or trading in securities.

From time to time we may provide you with additional information and resources to assist you with managing your brokerage account. This may include but is not limited to educational resources, sales and marketing materials, performance reports, asset allocation guidance, and/or periodic brokerage account reviews. These activities are not designed to monitor specific investment holdings in your brokerage account, they do not contain specific investment recommendations about investment holdings, and you should not consider them a recommendation to trade or hold any particular securities in your brokerage account.

**Account Monitoring:** We do not commit to provide on-going monitoring of your brokerage account. If you prefer on-going monitoring of your account or investments, you should speak with your financial professional about whether an investment advisory relationship is more appropriate for you.

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

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will be delivered to you in connection with your purchases of investments as and when required by law. In addition, our financial professionals may establish their own minimum account balance requirements for the brokerage accounts they service. Any minimum asset requirements will be disclosed to you orally by your financial professional.

**Clearing Services:** We have entered into a fully disclosed clearing agreement with NFS, our clearing firm. Generally, our clearing firm will custody your brokerage account assets, however, if you also enter into an agreement with an issuer (such as an annuity carrier) or enroll in certain types of accounts (such as a 401K), that provider may have custody and provide additional back office functions. We and our clearing firm share responsibilities with respect to your account. Disclosures provided to you, when you open your account, contain information on how such responsibilities have been allocated between us.

**Understanding Risk:** It is important for you to understand that all investment recommendations and activities involve risk, including the risk that you may lose your entire investment. Further, some investments involve more risk than other investments. Higher-Risk investments may have the potential for higher returns but also for greater losses. The higher your "risk tolerance," (meaning the amount of risk or loss you are willing and able to accept in order to achieve your investment goals) the more you may decide to invest in higher-risk investments offering the potential for greater returns. We align risk tolerances with investment needs and offer you different investment objectives from which to choose (see below). You should carefully consider the investment objective and risk tolerance best aligned with your brokerage account goals and needs.

Investment goals typically have different time horizons and different income and growth objectives. Generally, investment goals are on a spectrum, with "Preservation of Capital" investors typically holding the smallest percentage of higher-risk investments, followed by "Income" investors holding some higher-risk investments, "Capital Appreciation/Growth" investors holding a significant portion of their portfolio in higher-risk investments, and finally "Speculation" investors holding very high risk investments. Risk tolerance also varies, and we measure it on a continuum that increases from "Conservative" to "Moderately Conservative" to "Moderate" to "Moderately Aggressive" and finally "Aggressive." See below for details.

## Generally Associated Risk Tolerance

**Typical Preservation of Capital Investment Objective:** Preservation of Capital portfolios emphasize capital appreciation and usually have minimal exposure to volatile growth assets.

**Typical Income Investment Objective:** Income portfolios emphasize a blend of current income and capital appreciation and usually have some exposure to more volatile growth assets.

**Typical Capital Appreciation/Growth Investment Objective:** Capital Appreciation/Growth portfolios emphasize capital appreciation with minimal consideration for current income and usually have significant exposure to more volatile growth assets.

**Typical Speculation Investment Objective:** Speculation investors seek out a maximum return through a broad range of investment strategies which generally involve a high level of risk, including the potential for unlimited loss of investment capital.

- **CONSERVATIVE:** Conservative investors generally assume lower risk, but may still experience losses or have lower expected returns.
- **MODERATELY CONSERVATIVE:** Moderately conservative investors generally assume lower to modest risk, but may still experience losses or have lower expected returns.
- **MODERATE:** Moderate investors are willing to accept a modest level of risk that may result in increased losses in exchange for the potential to receive modest returns.
- **MODERATELY AGGRESSIVE:** Moderately aggressive investors seek a moderately higher level of returns and are willing to accept a moderately higher level of risk that may result in greater losses.
- **AGGRESSIVE:** Aggressive investors seek a higher level of returns and are willing to accept a higher level of risk that may result in greater losses.

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Our recommendations are based in part on your risk tolerance and investment objective as outlined above. We encourage you to carefully consider your investment objective and risk tolerance before investing.

**Material Limitations on our Services:** Notwithstanding the wide range of broker-dealer services and investments we make available, there are certain material limitations on our and our financial professionals' services and the investments we make available, and these material limitations are set forth below.

- **FINANCIAL PROFESSIONAL LIMITATIONS:** Not all of our financial professionals can offer the full range of investments and services our firm offers.
  - **Non-Advisory Financial Professionals:** Even though our affiliated firms offer both broker-dealer and investment advisory services, some of our financial professionals are licensed to recommend and offer broker-dealer services only, whereas some of our other financial professionals are licensed to recommend and offer both broker-dealer and investment advisory services. If your financial professional is licensed to recommend and offer broker-dealer services only, he or she will not be able to recommend, offer, or provide you with any of the investment advisory services our firm offers. He or she will advise you of this limitation orally. Some of our broker representatives have their own registered investment adviser that is not affiliated with Arete and will advise you of this fact and provide their own disclosures and advisory services that are not part of Arete's investment advisory services.
  - **Financial Professionals with Limited Securities Licenses:** Even though our firm offers access to a wide range of investments, some of our financial professionals hold securities licenses that permit them to recommend, offer, and sell only certain types of investments, such as mutual funds, variable annuities, or certain other specific investments. As a result, these financial professionals are unable to recommend, offer, and sell the full range of investments our firm makes available. If your financial professional holds securities licenses that permit him or her to recommend, offer, and sell only certain types of investments, he or she will not be able to recommend, offer, or sell you any investments not covered by his or her securities licenses, even if our firm offers access to those investments.
  - **Financial Professionals Without Insurance Licenses or With Limited Insurance Company Appointments:** Even though our firm offers access to a wide range of variable annuities and variable life insurance policies (together, "variable products"), some of our financial professionals do not hold the insurance licenses required to recommend, offer, and sell variable products. If your financial professional does not hold the insurance licenses required to recommend, offer, and sell variable products, he or she will not be able to recommend, offer, or sell you any variable products, even though our firm offers access to a wide range of variable products. Additionally, some of our financial professionals who do hold the insurance licenses required to recommend, offer, and sell variable products have not been authorized or "appointed" by certain insurance companies to sell those insurance companies' variable products. If your financial professional has not been authorized or "appointed" by an insurance company to sell that insurance company's variable products, your financial professional will not be able to recommend, offer, or sell you any variable products offered by that insurance company, even if our firm offers access to that insurance company's variable products.

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

- **INVESTMENT LIMITATIONS:** While we offer access to a wide range of investments, including stocks, bonds, options, mutual funds, closed-end funds, ETFs, UITs, variable products, alternative investments, and other investment products, there are certain investments we do not offer. For instance, we do not offer all mutual funds from every single mutual fund company, all types of options, every type of ETF, every type of variable product, every education savings plan, or every security

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in any other category of securities. This means that our financial professionals are limited to recommending only those investments that we are authorized to offer and that are available through our platform. Additionally, we offer variable annuities and alternative investments (e.g., 1031 exchange programs, non-traded real estate investment trusts ("REITs"), qualified opportunity zone funds, limited partnerships, managed futures programs, oil and gas programs, and hedge funds) from third-party product sponsors who support our marketing and distribution efforts, including by making marketing and distribution support payments to us that help to subsidize our marketing and distribution costs.

- **FULL-SERVICE BROKERAGE AND COMMISSION RATES:** We are a full-service broker-dealer, not a "discount" broker dealer. Given the wide range of broker-dealer services we and our financial professionals offer you as a full-service broker-dealer, we do not offer discounted brokerage commissions. Our financial professionals, however, may provide discounts from their standard commission and other fee rates in certain circumstances. Additionally, we do not offer a self-directed brokerage account platform through which retail customers can trade in their own accounts.

## Conflicts of Interest

Certain conflicts of interest relate to the recommendations we and our financial professionals make. A conflict arises when an economic or other benefit might incline either us or our financial professional, consciously or unconsciously, to put our interests ahead of your interests. Some of these conflicts exist between you and both us and our financial professionals, while others exist between you and the firm alone or between you and our financial professionals alone. This document is not a comprehensive description of all conflicts of interest that we have in connection with providing you with brokerage services, but rather describes the most significant and common conflicts that may arise. Not all of the conflicts described here will apply each time a recommendation is made or a service is provided. The firm or your financial professional may have conflicts of interest beyond those disclosed here. Your financial professional will verbally disclose, where appropriate, any additional material conflicts of interest no later than at the time of a recommendation.

**Conflicts between retail customers and both us and our financial professionals** are caused by a variety of arrangements, including, but not limited to, the role we play in a transaction, compensation arrangements, and trading arrangements. Our firm and our financial professionals have the following conflicts:

- We and our financial professionals are paid each time you trade in your brokerage account or make a new investment. This type of payment is typically called a "commission," but may also be called a "sales charge," "sales load," or "markup." This type of payment presents a conflict of interest for us and our financial professionals because it creates an incentive for us and our financial professionals to recommend that you trade often and make additional investments. This type of payment also creates an incentive for us to recommend that you trade in investments that pay us the highest rate of compensation.
- For some investments you purchase, we receive payments from a third-party that are in addition to transaction-based charges. These types of payments are typical for mutual funds, interval funds, education savings plans, alternative investments, variable products, and certain other investment products. For example, certain issuers make ongoing payments to us based upon invested assets (not just new investments), such as 12b-1 fees, shareholder servicing fees, distribution fees, and trail compensation. This type of payment creates an incentive for us to sell and recommend that you hold investments that generate these payments to us.
- For investments with multi-share class structures, we and our financial professionals generally receive more compensation when we recommend that you purchase or hold a share class that is more costly for you. Some investments, including

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mutual funds, interval funds, education savings plans, certain alternative investments, and variable annuities, offer multiple share classes, and we and our financial professionals will earn higher compensation if you invest in certain share classes than we would if you invest in others. This type of payment creates an incentive for us to sell to you and recommend that you hold the share class in a multi-share class structure that results in the most compensation for us and is likely to be more costly for you. You should not assume that you are always recommended or invested in the share class with the lowest internal expenses or costs.

- When you engage in a rollover of assets from a workplace retirement account to an IRA, we and our financial professionals will receive compensation in connection with the investments you hold in your IRA. This type of payment creates an incentive for us and our financial professionals to recommend that you roll over assets from your workplace retirement plan into an IRA and purchase investments within your IRA that result in additional compensation for us and our financial professionals.
- We and our financial professionals can recommend that you invest through different account types and arrangements, such as through a brokerage account, an account directly held with the issuer of the investment (or its transfer agent), or an investment advisory account. Depending on factors including, but not limited to, the type and level of services you require as well as the frequency of trading in your account, one of these account types may be more cost-effective for you than the others and we and our financial professionals will earn more compensation in connection with certain of these account types than others. This type of payment creates an incentive for us and our financial professionals to recommend that you open and use the account type that pays us the most compensation.
- We offer access to a variety of different investment categories and investment products and the compensation that we and our financial professionals receive in connection with your transactions varies among investment categories, particular investments within those categories, and share classes within those particular investments. This type of payment creates an incentive for us and our financial professionals to recommend that you purchase investments that pay us the highest rate of compensation.
- Some of our financial professionals are wholesalers, who are marketing representatives of product sponsors or their affiliated distributors. The firm typically receives a percentage of the fees generated by the products the wholesalers sell, and all or a portion of that fee is paid out to the financial professional. In addition, some of our financial professionals receive reimbursements or direct payments from wholesalers for marketing and distribution of wholesalers' investments. If your financial professional is a wholesaler or receives these wholesaler reimbursements or direct payments, he or she has an incentive to recommend investments that entail these wholesaler reimbursements or payments.

**Conflicts between retail customers and our firm** are caused by a variety of arrangements, including, but not limited to, the role we play in a transaction, compensation arrangements, trading arrangements, and customer-specific arrangements. Our firm has the following conflicts:

- Many sponsors of the mutual funds and variable annuities and alternative investments our financial professionals recommend periodically pay us based upon the total amount of their investments we sell, the total amount of assets we direct to them and their investments, or a combination of both. This type of payment creates an incentive for us and our financial professionals to recommend that you purchase and hold investments issued by product sponsors that make these payments to us. Many product sponsors or their affiliates also make payments to us to cover the costs associated with educational conferences and training seminars we host for our financial professionals. These payments are used for meeting costs only and are not revenue to the firm, nor are they tied to total sales of, or customer assets invested in, the sponsors' products; however, our receipt of this type of payment creates an incentive for us to recommend that you purchase and hold investments issued by product sponsors that make these payments to us.

# REGULATION BEST INTEREST DISCLOSURES FOR BROKER-DEALER CLIENTS

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- NFS, our custodian and clearing firm, makes revenue sharing payments to us. NFS makes periodic asset-based revenue sharing payments to us based upon a percentage of our total customer assets invested in mutual funds participating in NFS' no transaction fee mutual fund program ("NTF mutual funds"). NFS also pays us an annual fixed dollar amount for each customer position in a mutual fund participating in NFS' transaction fee mutual fund program ("TF mutual funds"). This type of payment creates an incentive for us to recommend that you purchase and hold investments at NFS in NTF mutual funds and TF mutual funds, which generate these revenue sharing payments to us.
- We get paid when you engage in margin trading. When you engage in margin trading, where NFS extends credit (a loan) to you for the purpose of purchasing, carrying, or trading in securities, we charge you interest on all credit extended to you by NFS and we retain a portion of any interest you pay. This type of payment creates an incentive for us to recommend that you apply for margin trading privileges, engage in margin trading, and increase the amount of credit extended to you by NFS because we will receive more compensation when you do so.
- We get paid when you borrow using securities-backed lines of credit (SBLOCs) from certain third-party lenders. When you borrow cash secured by the securities in your brokerage account pursuant to an SBLOC, you will pay interest to the third-party lender on the money you borrow. Certain third-party lenders share a portion of the interest you pay with us to compensate us for services we provide in connection with offering you access to the third-party lender's SBLOC. This type of payment creates an incentive for us to recommend that you apply for an SBLOC with such lenders, enter into an SBLOC contract with such lenders, and increase the amount of cash you borrow under your SBLOC with such lenders because we will receive more compensation when you do so.
- We receive payments and fees for acting as a managing broker-dealer for certain issuers. These services include advising and assisting sponsors on their offerings of publicly registered and private placement securities and in distributing those securities through a selling group syndicate. One component of our fees is a percentage of sales. We will earn higher fees and compensation or other benefits when you invest in a product for which we are the managing broker-dealer. This type of payment creates an incentive for us to recommend you purchase securities for which we are a managing broker-dealer.

**Conflicts between retail customers and our financial professionals** are caused by a variety of arrangements, including, but not limited to, compensation arrangements, retail customer-specific arrangements, and outside business activities. Our financial professionals have the following conflicts:

- Your financial professional's compensation is dependent upon his or her sales, and he or she receives more compensation the more you trade, purchase additional investments, and purchase products that generate higher compensation. The amount of commissions, sales charges, sales loads, markups, ongoing payments, and certain other forms of compensation we share with our financial professionals is dictated by a payout table and depends on your financial professional's total sales. Your financial professional's payout percentage will be higher if his or her sales rise to a certain level. These payout percentage levels create an incentive for your financial professional to recommend that you trade more frequently, purchase additional investments, and purchase investments that generate higher compensation so that he or she will make progress toward or meet the thresholds required to receive additional compensation.
- Certain of our financial professionals are designated as Managers of an Office of Supervisory Jurisdiction (OSJ). OSJ Managers are responsible for supervising the business activities conducted by the locations and branch offices they have been appointed to oversee. Some of our OSJ Managers are compensated based in part on the revenues of the financial professionals in the locations and branch offices the OSJ Manager supervises. This type of compensation creates an incentive for an OSJ Manager to increase the sales and revenue generation by the financial professionals in those locations and branch offices.

# REGULATION BEST INTEREST DISCLOSURES FOR BROKER-DEALER CLIENTS

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- 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 additional training and support, this creates an incentive for him or her to recommend investments issued by issuers that provide such training and services.
- Some of our financial professionals receive forgivable loans when they join our firm and have outstanding loan balances forgiven over time as long as they are associated with our firm. If your financial professional received a forgivable loan and has an outstanding loan balance, he or she has an incentive to perform at a level that would ensure continued association with our firm by recommending you trade often and purchase additional investments.
- Some of our financial professionals conduct business activities outside of the scope of their relationship with us (outside business activities). If your financial professional engages in any outside business activities, he or she could have an incentive to spend more time on the outside business activity rather than on his or her brokerage activities. Additionally, your financial professional's outside business activities have the potential to influence the recommendations he or she makes to you. You can research any outside business activities your financial professional may have on FINRA's BrokerCheck website at <https://brokercheck.finra.org/>.
- Some of our financial professionals are limited in the investments, services, and account types they can recommend to you as a result of their not being licensed to provide investment advisory services, the securities and insurance licenses they hold, and their insurance company appointments. If your financial professional is subject to a material limitation on the investments, services, or account types he or she can recommend to you, he or she has an incentive to recommend that you invest in and utilize the investments, services, and account types that he or she is authorized to recommend because he or she will only be compensated if you do so.
- Some of our financial professionals are owners of the firm's holding company, Old Growth Capital, LLC, and may from time to time receive distributions or other benefits based upon the profitability of the firm and its affiliates. This ownership interest creates an incentive for the financial professional to generate fees and other income for the firm that may result in greater distributions or valuation of his or her holdings in Old Growth Capital, LLC.
- Some of our financial professionals have an ownership or other economic interest in certain private investment funds they may recommend. If your financial professional has this type of interest, he or she has an incentive to recommend that you invest, hold, and make additional investments in such a fund in order to generate additional compensation, grow the fund, or for other economic benefit.
- Brokerage accounts, unlike advisory accounts, do not use a fee model based on assets under management. If your brokerage account has minimal activity, or you have completed making commissions-based transactions, financial professionals who are dually licensed brokers and investment advisors have an incentive to recommend you transition your brokerage account to an advisory account to generate ongoing revenue. Financial professionals also have an incentive to provide higher levels of service to those clients who generate the most fees.