

# General Conflicts of Interest: Regulation Best Interest Disclosure Document (RBIDD)

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### About This Document

We are providing you this disclosure document because you are considering engaging with a ProEquities financial professional (FP) to purchase an investment product or service or open a new account. We want you to be aware of the material information you would consider important in making your decision. More important, we want you to understand the material facts about our relationship together, including:

- The capacity in which we will act;
- Any limitations that may affect our recommendations;
- The compensation we and our FPs receive;
- Information about the more common products we offer; and
- Material facts related to fees, costs, and conflicts of interest associated with our products and recommendations.

Having this information will help you and other retail customers to make decisions and know whether we are living up to our commitment to act in your best interest<sup>1</sup> whenever our FPs make recommendations to you. Please be aware this document is only a summary; it cannot and does not conceivably include everything you might consider important about our practices, products, services, fees, or conflicts.

Along with the summarized information in this document, which we refer to as our Regulation Best Interest Disclosure Document or RBIDD, we also identify other sources from which you can get additional information to help your investment decisions and we encourage you to review them. We believe this combined information will provide you with the tools to help you make informed investment decisions and to appreciate the value of the guidance and knowledge you will receive from our FPs.

### About ProEquities

ProEquities is a broker-dealer registered with the Securities and Exchange Commission (SEC) and member of the Financial Industry Regulatory Authority (FINRA). ProEquities is also a SEC registered investment adviser (RIA). ProEquities is a wholly owned subsidiary of Protective Life Corporation and operates across the United States. We have a network FPs who offer brokerage services, investment advisory services, or both, depending on their licenses. Some of our FPs are investment adviser representatives (IARs) of ProEquities or a non-affiliated third-party investment adviser (“advisors”).

Our FPs are primarily independent contractors. Some FPs may be employees of unaffiliated financial institutions, like banks and credit unions, at which ProEquities’ services are offered. ProEquities FPs often market services under their own business name. Some of the investment products offered may include various securities products, including mutual funds, exchange-traded funds, variable annuities, variable life insurance, municipal fund securities, alternative investments, and general securities such as stocks and bonds.

**Conflicts Generally:** This disclosure contains information about the business practices, compensation and conflicts of interest related to our brokerage business. Our interests are not always the same as yours. We and our FPs have business and financial interests “that might incline us or our FPs—consciously or unconsciously—to make a recommendation that is not disinterested.” This is what we mean when we use the term “conflicts of interest.” You will see words like “incentive” and “influence” in this disclosure, in addition to “incline,” these words should alert you to conflicts of interest and are used to describe the potential effects of those conflicts.

We address conflicts of interest in different ways. First, we tell you about our conflicts; that is a main purpose of this document. Second, we take steps to mitigate the effect of those conflicts. For example, we offer a diverse selection of financial products and services, and we have training, tools, and processes in place to help our FPs recognize and recommend the products and services that best address your needs. We have designed our compensation structure to disfavor or mitigate economic incentives that can influence your FP’s recommendations in a way that conflicts with your best interest; and we have a committee tasked with identifying and helping determine how to eliminate or mitigate conflicts of interest. Finally, we conduct supervisory oversight to ensure that each recommendation meets regulatory requirements.

We are a for-profit company and, like any for-profit company, we strive to earn a profit on our business. This creates a conflict in that we have an incentive to cut services and raise fees to facilitate profitability. We disclose this conflict to you and mitigate it by striving to ensure a level of service to facilitate a positive customer experience and retention of our FPs. We also mitigate this conflict by striving to satisfy regulatory requirements imposed by the SEC, FINRA, and state regulatory agencies.

<sup>1</sup> As used throughout this document, “best interest” refers to the SEC’s standard promulgated under Regulation Best Interest,

unless required to act pursuant to a heightened standard under applicable state law.

**While we take reasonable care in 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 or investment strategy will perform as anticipated.** Please consult any available offering documents for any security we recommend for a discussion of associated risks. Additional information about ProEquities and its FPs is available on FINRA's website at [brokercheck.finra.org](http://brokercheck.finra.org). Information related to our advisory practices can be found in our Form ADV at [ProEquities.com/Disclosures](http://ProEquities.com/Disclosures) or [adviserinfo.sec.gov](http://adviserinfo.sec.gov).

### Capacity and Restrictions on Recommendations

**Brokerage and advisory services:** As a ProEquities client, you receive a broad scope of services whether we serve you as a broker-dealer, investment advisor or both. While there are similarities between the brokerage and advisory services we provide, there are important differences, including the pricing structures for these services and the provision of ongoing monitoring of accounts. For information about these distinctions, visit our website at [ProEquities.com/disclosures](http://ProEquities.com/disclosures) and click on "Understanding Advisory and Brokerage Relationships."

**Brokerage relationships generate transaction-based compensation.** Our brokerage accounts are nondiscretionary transactional accounts. This means that while your FP may offer education, advice, and recommendations, you make all the yes/no decisions on which investments to buy/sell/hold. In brokerage relationships, investors pay transaction-based fees in connection with the products and services they receive, such as buying and selling stocks, bonds, mutual funds, annuity contracts and other investment products. These include commissions, transaction fees, loads and sales charges. Compensation to ProEquities includes these commissions, transaction fees, trail commissions, loads and sales charges plus compensation from third parties in some cases.

In a brokerage account, your total costs generally increase based on the frequency of transactions in the account and the type of securities you purchase. This presents a conflict in that the more you trade or invest, the more revenue we can generate from your account. We disclose this conflict to you and mitigate it through supervisory oversight designed to ensure each recommendation meets regulatory requirements, including Regulation Best Interest.

**No Ongoing Monitoring in Brokerage Accounts:** In brokerage accounts, our FPs do not provide ongoing monitoring of your account after the recommendation. Our best interest obligation to you applies only at the time of the recommendation. If you desire to have your account monitored on an ongoing basis, ask your FP about establishing an advisory account relationship.

**Advisory relationships have fee-based compensation.** In advisory relationships, clients pay a set fee, or a fee based on a percentage of the assets in the account according to an investment advisory program agreement. In some circumstances, ProEquities and its FPs receive additional compensation from third parties in connection with the assets in clients' advisory accounts. This compensation is in addition to the fee that a client pays for investment advisory services.

**Ongoing Monitoring in Advisory Accounts:** When handling an investment advisory account, your FP will act as a fiduciary to you. Advisory services are provided pursuant to a written agreement with you. In an advisory relationship, we provide ongoing monitoring of your account in accordance with the terms

of the written agreement. Nevertheless, the firm and your FP will receive payments even if your account is not actively traded. This is a conflict of interest that we address through this disclosure and by supervisory oversight.

If you hold both brokerage and advisory accounts and request a distribution, your FP has an incentive to recommend the distribution come from your brokerage account because the distribution could generate commissions and not reduce the assets under management and corresponding AUM fee.

For more information about ProEquities and the advisory services FPs provide, please see ProEquities' Form ADV disclosure brochures available on [ProEquities.com/disclosures](http://ProEquities.com/disclosures) or, in the case of a FP who is associated with a third party investment adviser, please refer to <https://adviserinfo.sec.gov> or contact that investment adviser for a copy of its Form ADV.

**Limitations on Investment Recommendations:** Although many FPs offer both brokerage and investment advisory services, some offer only brokerage services and others offer only investment advisory services. When you discuss services with a FP, you should ask what capacity the FP is acting or will be acting – as a broker-dealer registered representative and/or an IAR – when providing services to you. You should also ask if there are limitations on the products or services a FP may offer by virtue of any of the following:

**Limited Product Shelf:** There are literally thousands of investment products on the market and ProEquities does not offer all of them. The scope of products and services we offer may be more limited than what is available through other financial service firms. ProEquities and FPs offer investment products only from product sponsors with whom ProEquities has selling and distribution agreements. Other firms may offer products and services not available through ProEquities, which presents a conflict since you are not able to purchase those products or services through ProEquities. We disclose this conflict to you and mitigate it by maintaining a robust offering of products and services.

**Proprietary Products:** ProEquities is a subsidiary of Protective Life, which offers insurance products including annuities and life insurance. ProEquities FPs offer insurance products manufactured by Protective Life and products offered by unrelated insurance companies. This is a conflict in that our parent organization benefits from the sale of a Protective insurance product. We manage this conflict by disclosing it to you and by not creating a financial incentive for our FPs to offer Protective products. In this regard, our FPs do not receive more compensation for selling Protective insurance products.

Additionally, we offer mutual funds issued by Praxis, which is part of Everence Financial ("Everence"). Everence and ProEquities are not related companies. There are several ProEquities FPs affiliated with or employed by Everence. These Everence-affiliated professionals can offer mutual funds from Praxis in addition to mutual funds offered by unrelated mutual fund companies. This is a conflict in that Everence benefits from the sale of Praxis mutual funds. We manage this conflict by disclosing it to you and by not creating a financial incentive for Everence FPs to offer Praxis products. In this regard, Everence FPs do not receive more compensation for selling Praxis mutual funds.

**Restrictions Based on Licensing:** A FP's ability to offer individual products and services depends on his/her securities licensing. A FP holding a Series 6 license may only offer mutual funds, 529 plans, Unit Investment Trusts ("UITs") and variable annuity contracts.

A FP holding a Series 7 license can offer all of the investment products a Series 6 representative can offer as well as individual stocks, bonds, exchange traded funds ("ETFs"), and alternative investments (real estate investment trusts (REITs), limited partnerships (LPs), 1031 exchanges, Business Development Companies (BDCs), and private equity.) A FP may also hold either the Series 65 or 66 licenses or have attained a certification such as the Certified FP certificate, which enables them to offer advisory services. Finally, each state has different licensing requirements and not all FPs are licensed to conduct business in every state/.

You should ask your FP about the investment products or services he/she is licensed or qualified to sell, and his/her ability to service investments that you transfer to ProEquities from another firm. You should also review the licenses held by your FP by visiting the FINRA BrokerCheck system at <http://brokercheck.finra.org>. Licensing presents a conflict in that individuals may only offer you products or services that correspond to their licensing and not other products or services that may be appropriate. We disclose this conflict to you and mitigate it by reviewing recommendations made to you by our FPs to ensure they are in your best interest.

**Minimum Investment Amounts:** Some products may impose minimum investment amounts, which precludes purchases under that amount. Purchase minimums can vary by issuer, but they are common in mutual funds (typically between \$250 - \$1000), annuities (typically \$5,000 - 10,000), and alternative investments (typically between \$2,500 - \$5,000). Ask your FP or refer to the official product offering document if there are minimum purchase amounts applicable to the investment product you are considering.

**Distinction Between Holding Products Directly with Sponsor or in a Brokerage Account:** Exchange traded securities (i.e., stocks, bonds, options, ETFs) are only available for purchase in a brokerage account maintained at our custodian Pershing, which sends you confirmations and account statements. Other securities, including mutual funds, variable annuities, and alternative investments, may be owned in either a brokerage account or directly held with the product sponsor ("directly held").

With a directly held account, ProEquities purchases the investment directly with the product sponsor, which is responsible for sending you confirmations and account statements. In a brokerage account, you can hold several different types of securities, which can be more efficient because all the securities are included on one statement and you receive one Form 1099. With a directly held account, you may only hold products issued by that product sponsor. Brokerage accounts typically have annual maintenance fees and fees for transactions and other services (see our schedule of fees at [ProEquities.com/Disclosures](http://ProEquities.com/Disclosures)) while directly held accounts typically do not charge such fees, which makes directly held accounts less expensive. While there are important differences between brokerage and directly held accounts, we do not require your FP to open a particular type nor do we incent one type over the other. Talk to your FP about which type of account is best for you.

**Rollover Compensation:** If a customer has funds in an employer sponsored 401k or similar tax advantaged retirement plan and retires or changes employers, she may have the option to, among other things, move the funds to an IRA account. Similarly, if a customer has an existing IRA account at one financial institution, he may transfer that account to an IRA at another financial institution, including ProEquities. Both of these transfers are types of "rollovers" in which you transfer the funds from an IRA or employer sponsored plan to ProEquities. Please recognize that FPs have a significant conflict of interest to recommend you transfer or rollover the funds to a ProEquities account because of the ability to earn a commission on investment purchases. If you do not rollover the funds, your FP does not earn compensation.

ProEquities recognizes this conflict and discloses it to you. Further, we mitigate this conflict by requiring the completion of a specific Rollover Recommendation Form, which you as a client must review and sign. In most instances, a rollover account will be more expensive than leaving your funds in an employer sponsored account since your FP receives compensation for providing you with recommendations. The Rollover Form provides general education on the differences between leaving your funds with your employer sponsored plan and moving them via rollover to ProEquities. This form also highlights the potential disadvantages and advantages.

#### **Firm Revenue: Commissions, Fees, and Third-Party Compensation**

We earn revenue primarily from clients. We also earn revenue from product sponsors and money managers ("third parties") who assist us in providing the investments and services that we offer you.

**A. Revenue from Clients:** Our brokerage revenue from clients includes:

**1. Commissions:** We receive commissions you pay to buy or sell equities and fixed-income investments (this applies when we act as agent or broker). Please see commission schedule at [ProEquities.com/Disclosures](http://ProEquities.com/Disclosures). We share this revenue with your FP. The more investments you purchase or the more frequently you trade, the more commissions we earn.

**2. Markups and markdowns:** We receive revenue from markups and markdowns on your price when you buy or sell securities (this applies when we act as principal buying and selling from our own inventory, primarily for bonds). We share this revenue with your FP.

**3. Sales loads:** We earn revenue from sales loads (sales charges), commissions or concessions charged on the sale of various managed investments such as mutual funds, unit investment trusts, insurance and annuities. A commission is typically paid at the time of the sale and can reduce the amount available to invest. For more information about other commissions that apply to a particular transaction, please refer to the applicable product disclosure form or offering document. We share this revenue with your FP. We have an incentive to sell products that pay higher sales loads.

**B. Revenue from Third Parties:** Our revenue from third parties includes:

**1. Trail Compensation and/or 12b-1 Fees:** We collect payments from mutual fund and insurance companies in the form of distribution and/or service fees (e.g., 12b-1 fees), trail commissions or renewal commissions, which are fully described in the applicable offering document. Trails are typically paid from the assets of the investment product and the amount is calculated as an annual percentage of assets invested by ProEquities customers. The more assets you invest in the product, the more trails we earn. This creates an incentive to encourage you to increase the size of your investment. The percentage of assets received varies by product, which creates an incentive to recommend products paying higher trails. We share this revenue with your FP, which creates a conflict to recommend products paying higher trail compensation. We manage this conflict by disclosing it to you.

- **Mutual Funds and 529s:** The ongoing 12b-1 trail payment depends on the class of shares but is typically between 0.25% and 1% of assets annually.
- **Annuities:** The amount and timing of trail payments varies depending on the issuer and type of policy purchased. The maximum trail payment for annuities is typically 1.5%.
- **Alternative Investments.** For alternative investment products, such as private funds, trail payments may be as high as 1.25% on an annual basis.

**2. Revenue Sharing Payments:** We receive payments known as revenue sharing from certain mutual fund companies, 529 plan program managers and insurance companies (collectively referred to as “product partners”). Our receipt of revenue sharing payments creates a potential conflict of interest in that we have an incentive to offer products from product partners that pay us revenue sharing. There is also a conflict in that ProEquities receives more revenue for certain product types than others. We address these conflicts by disclosing them to you and by not sharing any of the payments with our FPs, who are free to offer products from firms that do, or do not, pay revenue sharing to ProEquities.

- **Insurance Carriers:** ProEquities receives compensation from insurance carriers that ranges from .05% to .50% annually of insurance product sales. Insurance carriers also pay ProEquities for support and to participate in marketing and educational efforts, such as conferences and seminars.
- **Direct Participation and Alternative Investment Sponsors:** ProEquities offers alternative investment products, including direct participation programs (DPPs), REITs, LPs, 1031 exchanges, BDCs, and private equity. While the revenue sharing agreements with each alternative investment company may vary, we may receive up to 1% of the gross amount of sale for these products. Providers of alternative investment products also make payments to ProEquities to support and participate in marketing and educational efforts, such as conferences and seminars.
- **UIT Sponsors.** ProEquities receives fees, often referred to as volume concessions, from UIT sponsors that are based on a percentage of sales volume. These fees are set by the UIT sponsor and vary. The UIT prospectus contains detailed descriptions of these additional payments.

Product Type	ProEquities Marketing Support Compensation Received	FP Compensation Received
<b>Mutual Funds</b>	None	NA
<b>Variable Annuities</b>	Either flat fee or up to 0.20%	No
<b>Fixed Indexed Annuities</b>	Either flat fee or up to 0.50%	No
<b>Alternative Investments</b>	Either flat fee or up to 1.00%	No

For a list of companies providing marketing support, please see Appendix A.

**3. Marketing Support Revenue:** We receive payments from product sponsors in connection with programs that support our marketing and sales force education and training efforts. We refer to companies that provide these payments as Strategic Partners. These payments also support ProEquities recognition and/or education conferences. There are several levels of Strategic Partner sponsorship depending on the amount of sponsorship revenue provided and each level has varying degrees of benefits in terms of access to our FPs. Marketing support payments are usually flat fee payments although we also will designate companies that provide us a significant amount of revenue sharing payments as Strategic Partners even if they do not provide marketing support payments. The receipt of these payments creates an incentive for ProEquities to offer and promote products issued by our Strategic Partners. We mitigate this conflict by disclosing it to you and by not sharing this revenue with our FPs, who are under no obligation to offer these products to you.

### C. Revenue from Pershing, LLC:

**Miscellaneous Fee Revenue:** For accounts held at our clearing firm Pershing, customers pay miscellaneous fees for account services, including but not limited to, transaction fees for purchases of products on the Pershing platform, wire transfers, returned checks, transfer on death services, outgoing account transfers, account inactivity, margin extension fees, margin interest fees, IRA annual maintenance fees, and IRA termination fees. These charges are assessed against the customer’s account and may include additional charges, or markups, that ProEquities assesses for these account services.

In some instances when a new FP joins ProEquities, her former customers may determine to follow her to ProEquities by moving their accounts from the prior firm, often incurring account closing fees in the process. In some instances, ProEquities reimburses clients these closing or termination fees and then receives reimbursement from Pershing. For a complete list of fees, please refer to [ProEquities.com/Disclosures](http://ProEquities.com/Disclosures) and click on Brokerage Account Service Fees. We do not share this revenue with your FP.

The receipt of fee revenue from Pershing is a conflict in that we have an incentive to drive more business through Pershing. We disclose this conflict and mitigate it by having an open architecture platform that gives FPs the decision to determine to submit business through Pershing or direct to fund sponsors. Additionally, FPs do not receive any of these fees, which eliminates the conflict on their part to route business through Pershing.

**FUNDVEST Revenue:** ProEquities is a participant in Pershing's FUNDVEST no-transaction fee program, which offers no-load mutual funds with no ticket charges in brokerage accounts. Mutual fund companies that make their funds available in this program pay a fee to Pershing for their participation. Pershing pays us a portion of the service fees it receives from participating mutual fund companies. We do not share this revenue with the FP. Our receipt of this compensation creates a conflict in that we have an incentive to recommend funds for which we receive this revenue. We manage this conflict by disclosing it to you, by not sharing the compensation with the FP, and by not requiring FPs to sell FUNDVEST funds.

**Money Market Funds Revenue:** For brokerage and advisory accounts held at Pershing, Pershing automatically transfers cash deposits in the client's account, including money waiting to be reinvested such as dividends, incoming cash deposits and money from sell orders, into an interest bearing money market fund (sweep option), the Liquid Insured Deposit program. ProEquities receives revenue sharing payments for assets held within the sweep option. This is a conflict in that we have an incentive to drive assets to this sweep program to collect revenue. We disclose this conflict to you and mitigate it by not sharing these payments received with FP who recommend a cash sweep option. We further mitigate this conflict by allowing customers to purchase other money market funds, which may have higher yields than the sweep option.

**Loan Advance Revenue:** ProEquities participates in Pershing's LoanAdvance® program, which allows clients to access credit through a non-purpose loan. ProEquities receives revenue sharing payments from Pershing for its assistance in facilitating this program and shares this revenue with your FP. This creates an incentive to recommend customers borrow money rather than liquidate account assets so that we continue to receive brokerage commissions and fees on those assets. We disclose this conflict to you.

**D. Fees Received from FPs:** ProEquities provides services and technology to its FPs for which it charges monthly fees. ProEquities also charges fees for other administrative, compliance, and supervision services. These fees can make it more or less profitable for the FP to offer and recommend certain services or products over others. Additionally, ProEquities may charge your FP transaction fees on your investment transactions, which can vary by product. This can serve as an incentive to recommend investment products that carry the lowest transaction charges.

### **Financial Professional Compensation**

ProEquities generally compensates FPs pursuant to an independent contractor agreement, and not as employees. Described below are the compensation and other benefits that independent contractor FPs receive from ProEquities.

**A. Cash Compensation:** When you buy or sell certain investments, such as stocks, bonds, exchange-traded funds, and other investment products, you pay to ProEquities a commission or a sales charge. The amounts differ depending on the investment and the amount of the transaction. ProEquities also receives payment from the mutual fund or insurance company if you buy mutual funds, annuities, or insurance policies. ProEquities pays your FP a portion of these charges and payments. The payout level may vary based on the FP's agreement with ProEquities. Some

investments provide more compensation to your FP than others, which creates a conflict in that it can influence the investment product recommendation. For information on the amount of the sales charge or commission applicable to your investment, please refer to either the product offering document (or prospectus) or the trade confirmation, as applicable.

There exists a conflict in that the FP has an incentive to recommend you trade more frequently to generate a commission. We disclose this conflict to you and mitigate it by monitoring recommendations to ensure they are in your best interest. In most instances, your FP has an incentive to recommend you purchase investments such as a mutual fund, 529 plan, variable annuity or variable life insurance policy that generate revenue when purchased, as well as provide ongoing compensation (e.g., 12b-1 fees, trail commissions) as opposed to investing in investments that may pay lower upfront commissions and do not provide ongoing compensation. Over a longer period of time, your FP and ProEquities will earn more revenue from a mutual fund, a 529 plan or an annuity than from an ETF, a stock or a bond, but this will depend on several factors including the specific product, how much you invest, breakpoints and trading frequency.

**B. Benefits:** Financial professionals are eligible to receive other benefits based on the revenue he/she generates from sales of products and services. These benefits present a conflict of interest because the FP has an incentive to increase sales and remain a registered representative of ProEquities in order to maintain these benefits. We disclose this conflict and mitigate it by not tying them to any specific product sales. These benefits include:

- eligibility for ProEquities' practice management support and enhanced service support levels that confer a variety of benefits, conferences (e.g., for education, networking, training, and personal and professional development), and other non-cash compensation.
- Deferred compensation contribution from ProEquities
- Contributions to defray cost of attendance to ProEquities' sponsored conferences

**C. Trail Compensation and/or 12b-1 Fees:** As discussed in the Firm Compensation section, the firm receives, and shares with FPs, payments from mutual fund and insurance companies 12b-1 fees, trail commissions or renewal commissions, which are fully described in the applicable offering document. The more assets you invest in the product, the more trails we earn. We have an incentive to encourage you to increase the size of your investment. The dollar amount of trails received varies by product, which creates an incentive to recommend products paying higher trails. This creates a conflict for your FP to recommend funds paying higher trail compensation. We manage this conflict by disclosing it to you and by monitoring recommendations to ensure they are in your best interest.

**D. Recruitment Compensation:** In many cases, ProEquities provides FPs financial incentives when they join our firm from another firm. In general, if your FP joins ProEquities from another firm, you should discuss the reasons your FP decided to change firms and any costs or changes in services you would incur by transferring your accounts to ProEquities. FPs joining from other firms are eligible to receive incentives, including loans, bonuses and/or other compensation, if they reach certain asset and/or production levels or other targets. The amount paid to FPs under these arrangements is largely based on the amount of the business serviced by the FP at their prior firm and the FP achieving a

minimum percentage of their prior firm production and asset levels within a specific time period after joining ProEquities.

These payments are often substantial and take various forms, including loans, transition bonus payments and various forms of compensation to encourage FPs to join ProEquities, and are contingent on your FP's continued affiliation with us. Therefore, even if the fees you pay to ProEquities remain the same or are less, the transfer of your assets to ProEquities contributes to your FP's ability to meet such targets even if not directly related to your account or the fees you pay to us. These practices create an incentive and a conflict for your FP to recommend the transfer of your account assets to ProEquities because a significant part of the FP's compensation is often contingent on the FP achieving a pre-determined level of revenue and/or assets at ProEquities.

**E. Noncash Compensation:** Investment sponsors may give FPs gifts up to a total value of \$100 per provider per year, consistent with industry regulations, and may occasionally provide FPs with meals and entertainment of reasonable value. Investment sponsors may provide FPs with reimbursement in connection with educational meetings, client workshops or appreciation events, or marketing or advertising initiatives, including services for identifying prospective clients. Additionally, third parties may provide the firm and our FPs with access to certain research tools, or software that is developed or subscribed to by third parties. We want you to understand that this creates a potential conflict of interest because this may cause FPs to favor sponsors providing these noncash incentives. We address these conflicts by maintaining procedures regarding the sale and supervision of the products and services we offer to you, and by disclosing our practices to ensure you make a fully informed decision.

**F. Recognition and Awards:** We recognize the success of our FPs with awards and recognition, which are incentives. The firm's The Elite Summit is a recognition conference for the FPs with the most production during the prior year. Additionally, each year the firm sponsors a training meeting for which the highest producing FPs receive monetary assistance from the firm for travel and education costs. We receive payments from product sponsors to offset expenses for these meetings and allow product sponsors to sponsor events or meals at these meetings. These incentive trips create a conflict of interest in that FPs could have an incentive to recommend the purchase of investment products to enhance their compensation to qualify for the incentive trips. We disclose this conflict to you and mitigate it by reviewing sales transactions to ensure they are in your best interest.

**G. Compensation to Supervisory Principals:** In addition, ProEquities pays compensation to Office of Supervisory Jurisdiction principals (OSJ) based on sales of investment products and services by FPs they supervise. In some cases, FPs pay a portion of their compensation to their OSJ or another FP for supervision and/or administrative or sales support. There is a conflict of interest because the compensation affects the OSJ's ability to provide objective supervision of the FP. ProEquities and OSJ managers have an obligation to supervise FPs and may decide to terminate a FP's association with ProEquities based on performance, a disciplinary event or other factors. The amount of revenue a FP generates creates a conflict of interest when considering whether to terminate a FP.

**H. Revenue from a FP's Outside Business Activities (OBAs):** FPs are permitted to engage in certain ProEquities-approved business activities other than the provision of brokerage and

advisory services through ProEquities. Financial professionals receive compensation and benefits from these activities and in certain cases they may earn more compensation from their OBAs than they earn through ProEquities. Examples of common OBAs in which our FPs participate include insurance product sales (e.g., fixed life insurance, property & casualty, health/dental), tax preparation and/or accounting, and employee benefits services

FPs' OBAs are separate and distinct from their ProEquities activities. Your FP may own the company through which the OBA is conducted. By engaging in OBAs, your FP may have an incentive to recommend you purchase products or services through the OBA, bypassing ProEquities. If you engage with a FP for services separate from ProEquities, you may wish to discuss with him/her any questions you have about the compensation he/she receives from the engagement. Additional information about your FPs outside business activities is available on FINRA's website at <http://brokercheck.finra.org>. OBAs create conflicts that we cannot always mitigate, other than through disclosure.

### **Products: Types, Costs, and Compensation**

This section provides information on many of the most common products and services available through ProEquities. As noted above, we do not make every product or service available, and those that are available are not always the least expensive in the broader marketplace. We evaluate which products and services to make available based on many factors, including business considerations and our need to ensure there is a reasonable basis for all of our FPs' recommendations.

**Investment Philosophy:** We require our FPs 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 the retail customer's best interest, and does not place the interest of the FP or ProEquities ahead of the customer at the time the recommendation is made. In determining whether our FP's recommendation is in the retail customer's best interest, we consider your individual investment profile, which 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 disclose to us or to the FP in connection with a recommendation. If this information changes, it is critical that you notify us as our recommendations are based on this information.

### **A. Mutual Funds and 529 Plans**

**Mutual Funds:** Mutual funds and 529 plans are professionally managed portfolios of securities that pool the assets of investors toward a common objective, such as current income or long-term growth. All mutual funds are offered for sale through a prospectus, which you should read prior to investing in a fund. The prospectus describes the fund's sales charges and expenses and describes the fund's investment objective.

All mutual funds charge investment management fees and ongoing expenses for operating the fund and these expenses can vary by the class purchased. The most common types of mutual funds are Class A and C shares and ProEquities only offers these two types in commissionable brokerage accounts. Some funds offer no-load share classes, which at ProEquities are only available in advisory programs. Funds may also offer special share classes for qualified retirement plans. The key distinctions between share classes relate

to the sales charge and operating expenses. Your FP's compensation is determined by the type of share class purchased.

**Class A Shares:** For class A share mutual funds, you typically pay a front-end sales charge, called a sales load, which is deducted from the initial investment. Sales charges for mutual funds investing predominantly in equities (up to 5.75%) generally are higher than those of mutual funds investing primarily in bonds (up to 4.75%). Your front-end charges may be reduced or eliminated as the amount of your investment with the mutual fund company increases above certain levels. Such reduced charges are known as breakpoint discounts. At a certain level, typically \$1 million, you may not pay any sales charges. An FP has an incentive to recommend you purchase funds from different sponsors so as to avoid breakpoint discounts and therefore increase compensation. We disclose this conflict and mitigate it by conducting supervision to detect this practice.

Annual operating expenses for class A shares (0.25%) are generally lower than those for class C shares. Please refer to the prospectus for the specific sales charges and expenses.

**Class C Shares:** For class C share mutual funds, you are normally not charged a front-end sales charge or a contingent deferred sales charge (CDSC) unless you sell shares within a short period, usually one year. The operating expenses (typically 1 %) are higher than those of class A shares. Class C shares do not offer breakpoint discounts. Class C shares usually are more appropriate for investors with a shorter investment time frame.

**Compensation:** The mutual fund company pays ProEquities a commission at the time you make your investment with the amount varying depending on the share class purchased and any applicable break point discounts. ProEquities pays a portion of this commission to your FP. FPs receive higher up-front compensation from the sale of A-shares, which is an incentive to offer this class. The product sponsor also pays us ongoing trail compensation, which we share with your FP. The trail charge is typically up to 1% for C-shares and .25% for A-shares, which creates an incentive for an FP to offer C-shares to earn a higher ongoing commission. Trails are paid out of fund assets for as long as you own your shares and we are the broker of record. Please ask your FP how he or she is paid for mutual fund transactions.

**Mutual Fund Sales Charge Example:** If you instruct your FP to purchase \$10,000 of an equity mutual fund class A share with a 5.75% sales load, you will pay \$575 and the amount invested would be \$9425 (\$10,000 - \$575).

**Money Market Mutual Funds:** A money market mutual fund contains short term debt and monetary investments and has an objective of maintaining a stable net asset value of \$1 per share. There are no sales charges when you buy a money market fund. There typically is no fee to redeem money fund shares unless the fund's board has determined to impose liquidity fees in certain circumstances. The fund's prospectus contains information regarding the fund's objectives, risks, investments, fees and expenses. ProEquities does not charge commissions or fees for the purchase or liquidation of money market funds. We do receive 12b-1 fees and share these with your FP.

**B. Unit Investment Trusts (UITs):** A UIT is an SEC-registered investment company that invests in a fixed, diversified group of professionally selected securities according to a specific investment strategy. Unlike open end mutual funds, the securities

within the UITs portfolio are not actively traded and instead maintain more of a buy and hold approach to investing. As a holder of a UIT you own a portion of the securities in the trust. UITs have a set termination date where the portfolio securities are sold and the proceeds are paid to investors. Prior to the UIT's termination, a holder may redeem shares by tendering back to the sponsor. The amount received will be based on the current value at the date of redemption, which may be less than the original amount invested. UIT sponsors continuously offer new series of UITs, which makes it possible for investors to purchase a new series of the UIT upon expiration of the current UIT.

In brokerage accounts, you typically pay a front-end sales charge of up to 3.5%. We receive a portion of that sales charge from the provider sponsoring the UIT and share it with your FP. Details on operating expenses and organizational fees are included in each UIT's prospectus. Your FP does not receive commissions from the liquidation of UITs but will if you purchase a new series.

**C. Variable Annuities:** Variable annuities are contracts issued by insurance companies into which the buyer makes a lump-sum payment or series of payments. In return, the insurer agrees to provide either a regular stream of payments beginning immediately (or at some future date) or a lump sum payout at a future time. The client pays premiums to the issuing insurance company. At the client's direction, the insurer allocates the client's premium payments to investment options, or sub-accounts (which are similar to mutual funds) comprised of stocks, bonds, or other investments. When you invest in a variable annuity, any growth credited to your account is not taxed until you take distributions, at which point you pay taxes on any gains. Withdrawals before the age of 59 ½ may also incur a federal tax penalty. Please refer to the prospectus for information specific to the variable annuity you purchase.

**Fees and charges:** Because variable annuities possess insurance features, they have fees and/or expenses that are not found in other investment products. The fees or expenses that you pay vary depending on the terms and share class of the annuity purchased. The most common fees are as follows:

- **Surrender charge:** Most variable annuities do not have an initial sales charge. However, insurance companies usually assess a surrender charge, or contingent deferred sales charge (CDSC), if the owner liquidates a contract or makes a withdrawal in excess of the free withdrawal provision (which is typically 10%) during the surrender period specified in the prospectus. The CDSC typically decreases over several years. Please read the prospectus carefully with regard to the applicable surrender charges.
- **Mortality & Expense Risk charge:** The insurance company charges you this fee for the insurance risks it assumes by providing you guaranteed future payments and basic death benefits. This fee helps the insurance company offset the cost of commissions paid to the FP.
- **Administrative fees.** These fees cover costs associated with servicing the annuity, including the cost of transferring funds, tracking purchase payments, issuing confirmations and statements, recordkeeping, and customer service.
- **Contract maintenance fee:** This is an annual flat fee, usually \$25 or \$30 a year, to keep the contract active. This fee may be

waived on variable annuity contracts with account values over a certain dollar amount (for example, \$50,000).

- **Underlying fund expenses on subaccounts:** These fees cover the cost of managing the investments within the subaccounts.
- **Optional rider costs.** Additional riders that provide protection for death and/or provide income may cost extra.

**Commissions and Compensation:** We primarily offer B-share variable annuities that have a CDSC that typically ranges from 5% - 7% in the first year, declining to zero after five to seven years. As the surrender charge decreases or goes away, your FP has an incentive to liquidate your investment and transfer it to another annuity purchase to earn a commission. We disclose this and mitigate it through supervisory oversight of all such exchanges.

The commission payable to ProEquities, which we share with your FP, ranges from between 3-7% of your initial investment, with an annual trail commission of up to 1% of the total value of the annuity. Your FP has the option to choose from a higher upfront commission with a lower trail payment or, conversely, a lower upfront commission with a higher trail payment. The total compensation paid with each of these options is generally comparable over time. Certain insurance companies may pay us additional amounts known as revenue sharing. Please see the section of this document entitled Firm Compensation for additional information.

**D. Fixed Indexed Annuities and Buffered Annuities:** Fixed indexed annuities are contracts issued by insurance companies where the returns are based upon the performance of a market index, such as the S&P 500. This annuity provides a guaranteed minimum accumulation value, subject to the issuer's solvency. The performance is subject to predetermined rate caps and floors, meaning the performance of your fixed indexed annuity will not exceed or fall below the specified return levels as described in the disclosure document, regardless of market conditions.

A buffered annuity is similar to a fixed indexed annuity except that there is a potential to lose principal if the index falls farther than the level of protection offered by the annuity. For example, a buffered annuity might offer protection against the first 10% of a market decline; if the market declines beyond 10%, you would be responsible for any loss beyond 10%. Please refer to the disclosure document for information specific to the buffered annuity you purchase.

Typically, index annuities do not have a front-end sales charge when you purchase them but you may pay a CDSC to the insurance company if you liquidate the contract before the end of a certain period of time. The percentage amount of the CDSC usually declines over time. Typically, you do not pay any sales charges or annual operating expenses when you purchase a fixed indexed or buffered annuity. The insurance company considers all its costs, including commissions, when determining the interest rate, caps, participation rates, and CDSC. As the surrender charge decreases or goes away, your FP has an incentive to liquidate your investment and transfer it to another annuity purchase to earn another commission. We disclose this and mitigate it through supervisory oversight of all such exchanges.

The insurance company pays ProEquities a commission at the time you pay your premium and, for some contracts, at the time of any

subsequent renewal. The commission received generally ranges from 3.5% to 6%. The commission is not deducted from your initial premium or renewal amount. We share this commission with your FP. We also receive a revenue sharing payment from the insurance company, which we do not share with the FP.

#### **E. General Securities (Stocks, Bonds, Certificates of Deposit, Closed-end Funds, and Exchange Traded Funds)**

**Common and preferred stocks:** When you buy or sell stock, we act as your agent and route your order to an exchange for execution. You pay a commission based on the amount of the transaction (up to 1.5% with a minimum charge of \$35), which we share with your FP. This creates an incentive for your FP to trade more frequently to earn a commission. The commission schedule is negotiable, which means that some clients may pay higher commissions for similar trades than other customers. We disclose this conflict to you. In the event of trade errors and corrections, we can either earn a profit or loss.

**Bonds (Corporate, Municipal, Government):** When you purchase bonds, we act as either principal or agent. If we act as agent, we will charge you a commission, expressed as a percentage of the dollar amount you buy and sell. If you buy a bond from our inventory or sell a bond that we purchase directly from you, we act as a principal and will either markup the price (for a purchase) or markdown the price (for a sale). That creates an incentive for us to either buy the bond from you at the lowest price possible or sell the bond to you at the highest price possible and maximize our profit on the principal trade.

The amount of the commission or markup or markdown, which generally will not exceed 3% of the security (unless it is deeply discounted) will appear on the trade confirmation. We share this compensation with your FP. Your FP has an incentive to trade more frequently to earn higher commissions. The amount of the markup or markdown, or the commission, is negotiable, which means that some clients may pay more for similar trades than other customers. We disclose this conflict to you.

**Exchange Traded Funds (ETFs):** An ETF is an exchange-traded security combining attributes of conventional stocks with mutual funds. ETFs are pooled investment funds that offer investors an interest in a professionally managed portfolio of securities that track an index, a commodity, or a basket of assets. ETFs may be actively or passively managed and trade on stock exchanges where they may experience price changes throughout the day as they are bought and sold. Certain types of ETFs, namely leveraged ETFs and inverse ETFs are significantly riskier than basic ETFs and we do not allow FPs to solicit the purchase of these types of ETFs.

We act as agent for your ETF transactions by sending your order to an external venue to buy or sell shares. You pay a commission based on the amount of the transaction pursuant to a commission schedule (up to 1.5% with a minimum charge of \$35), which we share with your FP. This creates an incentive for your FP to trade more frequently to earn a commission. The commission schedule is negotiable, which means some clients may pay higher commissions for similar trades than others. We disclose this conflict to you. ETFs also carry built-in operating expenses that affect the ETF's return. For more information, refer to the applicable offering document.

**Closed-end Funds:** A closed-end fund is a type of investment company that is typically actively managed. Closed-end funds are

not continuously offered. They have a fixed number of shares that are publicly traded on an exchange. The share prices fluctuate based on investor supply and demand and there is no requirement that the share price match the Net Asset Value (NAV). Many closed-end funds trade at a discount to NAV. Open end mutual funds, on the other hand, are priced each day at NAV. Closed-end funds are not required to redeem shares.

We act as agent for your closed-end fund transactions by sending your order to an exchange to buy or sell shares. You pay a commission based on the amount of the transaction pursuant to a commission schedule. This creates an incentive for your FP to trade more frequently to earn a commission. The commission schedule is negotiable, which means some clients may pay higher commissions for similar trades than other customers. Your FP receives a percentage of the commissions from closed-end fund trades. We disclose this conflict to you.

**Certificates of Deposit (CDs) and Structured CDs:** CDs issued by banks or S&Ls and have fixed interest rates and set maturity dates. We also offer market-linked CDs, which are CDs with a return based on a collection of stocks or a market index, such as the Dow Jones Index or a basket of equities. CDs and market linked CDs are FDIC insured. Market-linked CDs are offered by private issuers, typically banks. The principal component of these CDs, if held to maturity is insured by FDIC, with a current limit of \$250,000. The interest or return component of these CDs is typically a senior unsecured obligation of the issuer and is not FDIC insured. Some CDs may have early redemption provisions, which gives the issuer the right or obligation to call the security away from the owner at preset dates and index levels. Please read the prospectus for information relating to investment objectives, risks, charges, and expenses of structured CDs before investing.

For new issues, clients pay the initial offering price, which is set by the issuer. The offering price includes costs and fees associated with purchasing the security and includes selling concessions paid to ProEquities. Clients are not charged additional sales charges or commissions. The offering price and a description of the costs and fees associated with a security can be found in the prospectus. ProEquities imposes limits on the amount of CDs an investor may purchase. We share the selling commission received with your FP. For CDs purchased in the secondary market, clients pay a markup (in the case of a purchase) or a markdown (in the case of a sale), which generally consists of (1) the sales credit (a commission) that varies based on the time to maturity and (2) the markup or markdown that the trading desk has included as part of the transaction. We share the markup/markdown with your FP.

**F. Alternative Investments:** ProEquities offers alternative investment solutions that can include non-traded real estate investment trusts (non-traded REITs), limited partnerships, non-traded business development companies (non-traded BDCs), non-traded closed-end funds, hedge fund offerings, private equity offerings, real estate private placement funds, oil and gas programs, interval funds, and 1031 exchanges and exchange funds. These products are classified as "alternative" because they are unlike traditional brokerage securities, such as stocks and bonds, and are generally not traded on an exchange. In some cases, alternative investments have a negative correlation to traditional investments and are used to further diversify portfolios beyond the traditional asset classes to help manage risk.

Alternative investments are generally illiquid long-term investments (7-10+ years) and there typically does not exist a secondary trading market. For this reason, converting an alternative investment to cash prior to liquidation is extremely difficult and may not be possible. In some cases, it may be difficult to determine the current value of the asset. 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 than the original amount invested. Most of these offerings are sold by prospectus or offering memorandum, which contains more complete information including risks, costs and expenses. Investors should read these carefully before investing.

Additionally, these investments contain fees and expenses that are higher than those of other investment types. These products are complex, risky, and not appropriate for everyone. For this reason, there are heightened investor qualification requirements for purchases. There also could be a less expensive or less complicated product that is similarly appropriate for you.

When you invest in an alternative investment, the product sponsor pays us a sales charge or commission of up to 6%, which we share with your FP. In addition to this sales charge you will also be responsible for paying additional expenses relating to the organization and operation of the investment. As much as 12-15% of your investment can go to pay for these expenses (which includes the sales charge). A complete description of these expenses can be found in the product prospectus. We share the sales charge received with your FP.

**G. Variable Life Insurance:** With a variable life insurance policy, the life insurance company determines the amount of the premium that you pay, which is dependent on several factors including the type of policy, amount of coverage, your age, and health. Premium payment structures can vary, from fully paid up front to ongoing payments (e.g., annually, quarterly or monthly.) We receive a commission from the issuing insurance company that can range to 125% of the first year premium, which we share with your FP. We also receive a portion of the premium you pay after the first year (or renewals) for a set number of years (generally up to 10 years). You can obtain more detailed information in the insurance policy or by speaking with your FP.

**Brokerage Fees and Expenses:** As referenced above, for accounts held at our clearing firm Pershing, customers pay miscellaneous fees for account services, including but not limited to, transaction fees for purchases of products on the Pershing platform, wire transfers, returned checks, transfer on death services, outgoing account transfers, account inactivity, margin extension fees, margin interest fees, IRA annual maintenance fees, and IRA termination fees. These charges are assessed against the customer's account and may include additional charges, or markups, that ProEquities assesses for these account services. Visit [ProEquities.com/disclosures](https://ProEquities.com/disclosures) and click on Brokerage Account Service Fees for specific fees.

**Internal Product Fees and Expenses Generally:** As discussed above, many products (including mutual funds, variable annuities, ETFs, UITs, alternatives, and 529 plans) have internal operating expenses that are in addition to the commissions or sales charges referenced. Please be aware that these costs reduce your returns. Refer to the applicable offering document for more specific information about expenses.

## RELATED DOCUMENTS

Each of the following documents referenced above, in addition to others listed below, are accessible on our [Disclosures Website](https://proequities.com/disclosures) (<https://proequities.com/disclosures>).

- ProEquities Regulation Best Interest Disclosure Document
  - ProEquities Customer Relationship Summary
  - ProEquities Disclosures Page
  - Brokerage Account Service Fees
  - Rollover Disclosure Information
  - FINRA's Broker Dealer Recruitment Disclosure
  - Online Security Disclosure
  - Order Routing Practices
  - Understanding Advisory and Brokerage Relationships
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## Appendix A

### LIST OF COMPANIES PAYING REVENUE SHARING TO PROEQUITIES AND LIST OF STRATEGIC PARTNERS

#### Variable & Fixed Indexed Annuities

- |             |                       |                     |
|-------------|-----------------------|---------------------|
| ➤ Athene**  | ➤ American Equity     | ➤ North American    |
| ➤ Allianz   | ➤ American General    | ➤ Ohio National     |
| ➤ Jackson** | ➤ Great American      | ➤ Pacific Life      |
| ➤ Sammons** | ➤ Lincoln Financial** | ➤ Protective Life** |
| ➤ Voya**    | ➤ Mutual of Omaha     | ➤ Prudential        |

#### Alternative Investments

- |              |                        |
|--------------|------------------------|
| ➤ Bluerock   | ➤ Franklin Square**    |
| ➤ Blackstone | ➤ Resource Real Estate |
| ➤ Hines**    | ➤ Smartstop**          |
| ➤ Inland     | ➤ Waveland             |
| ➤ Owl Rock** |                        |

\*\* Indicates a company also categorized as a Strategic Partner

++Brighthouse (not listed above) is a Strategic Partner but does not provide revenue sharing.

Eff. Sept. 1, 2020