

**Brochure**  
(Part 2A for Form ADV)

**Retirement Plan Clients**

**Kestra Advisory Services, LLC**

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**Dated: June 24, 2019**

**This brochure provides information about the qualifications and business practices of our firm, Kestra Advisory Services, LLC. If you have any questions about the contents of this brochure, please contact us or contact your financial advisor.**

**The U.S. Securities and Exchange Commission, as well as state securities authorities, have not approved or verified information in our brochure. Additional information about our firm is published at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**References to our firm as a “registered investment adviser” or any reference to being “registered” does not imply a certain level of skill or training.**

## Material Changes

This section of our brochure summarizes material changes that have occurred at our firm since the previous release of our brochure. We will update this section of the brochure on an annual basis and send a summary of any material changes at our firm along with our annual privacy policy mailing. You may receive a complete copy of our brochure by contacting your financial advisor or by contacting our firm and requesting one.

The last annual update to the Kestra Advisory Services Form ADV Part 2A was filed on March 29, 2019. Since then, the following material changes have occurred:

1. On June 3, 2019, Kingfisher Holding, LP, an investment vehicle initially owned, and now majority owned, by a group of private equity funds managed by Warburg Pincus LLC, purchased Kestra Advisor Services Holdings A, Inc., the indirect parent company of Kestra Advisory Services, LLC ("Kestra AS") and following completion of the transaction, Kingfisher Holding LP became the indirect parent company of Kestra AS.

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# Advisory Business

## Introduction

This brochure describes the investment advisory services we provide to clients that either are or sponsor a retirement plan (Plan) that is qualified under Internal Revenue Code and/or subject to the Employee Retirement Income Security Act (ERISA) or is a Plan that is considered nonqualified.

**This Summary Disclosure Statement is only for use with Plan clients; if you are not a Plan client, please contact your Advisor to obtain the proper Brochure.**

In addition to being an investment adviser, our affiliate, Kestra IS, is a broker-dealer and insurance agency. We provide securities (such as stocks, bonds, mutual funds and variable insurance, among others), investment advice and other financial services to clients. We provide investment advice through financial advisors registered with our firm. We refer to these financial advisors as "Advisors" in this brochure. Most of our Advisors are also registered representatives of our affiliate broker-dealer. In addition, many of our Advisors also act as insurance agents independent from our firm. We generally do not provide fixed insurance products or services other than fixed indexed annuities. To the extent your Advisor provides fixed insurance products or services, he or she does so outside of our firm and supervision.

The types of services our Advisors provide Plan clients are described in more detail below. Generally, these services include vendor searches and benchmarking, plan design strategies and analysis, fiduciary consulting and oversight, plan level investment advice and employee education services. The specific services an Advisor provides, and the fee for those services, may differ from Advisor to Advisor. The fees you will pay and the services you will receive are set forth in a separate Retirement Plan Consulting Agreement (Consulting Agreement) with you, the Advisor and our firm.

There are significant differences between brokerage and advisory services, which are governed by different regulations, offer different compensation structures, and place different obligations on your advisor. The services provided for brokerage and advisory also differ, and one arrangement may provide a lower overall cost than the other. Compensation for brokerage accounts is typically commission-based, although your advisor may also collect certain fees, such as 12b-1 fees. Compensation for advisory services is typically fee-based: either a flat fee or one based on a percentage of assets being advised or managed. In some instances, commissions might be the only compensation available. Your advisor will either offset the fees assessed by the commissions received or will not assess a fee for those assets for a period of time.

Some of our Advisors are also involved in other business activities, such as accounting, legal, tax, and other non-investment services for which we are not responsible. Unless otherwise provided by applicable law and the particular circumstances, services provided by our Advisors outside of our company will not be subject to a fiduciary standard. Our firm does not provide legal or tax advice and you should consult your own attorney or tax advisor for guidance relative to your specific circumstances.

## **Services**

### **MANAGE VENDOR RELATIONSHIPS**

Advisors act as liaison between the Plan and third-party vendor(s) that provide services to the Plan. Advisors bring new ideas and capabilities for the Plan to consider from current vendors and the industry in general. In providing these services, Advisors may negotiate fees charged by vendors and assist the Plan to manage its vendor expenses. An Advisor can also assist a Plan with the selection of new vendors. Advisors generally manage the Request for Proposal (RFP) process among prospective vendors. During the RFP process, Advisors conduct market analysis, negotiate with vendors, evaluate the RFPs and, as applicable, coordinate vendor presentations. Ultimately, Advisors provide Plan clients their analysis of the RFPs and a recommendation on a new vendor(s). In reviewing and recommending vendors, Advisors typically consider the administrative, recordkeeping, compliance, employee communications and investment-related services provided by the vendor, as well as the fees for their services. Finally, Advisors typically facilitate and manage the conversion process of changing vendors by, among other things, providing sample letters and correspondence and monitoring action items during the conversion process.

### **PLAN DESIGN STRATEGIES AND ANALYSIS**

Advisors evaluate a Plan client's design by reviewing relevant design features, such as age and length of service, eligibility requirements, vesting, forfeitures, employer matching contributions formulas, entry and re-entry dates and other pertinent design features. Further, Advisors may provide updates on new legislation as well as advice on implementation of new plan design capabilities and their potential impact to the Plan and its participants. Advisors typically review compliance testing annually to determine if there are efficiencies that can be gained by plan design changes.

### **FIDUCIARY CONSULTING AND OVERSIGHT**

Advisors may assist the plan fiduciaries named in the Plan's organizational documents (Named Fiduciaries) to comply with their obligations under ERISA Section 404(a). Such services include assisting with the creation of an investment policy statement (IPS) for the Plan, creating Plan investment committees and coordinating those committees' functions and activities. In addition, some Advisors assist the Plan and Named Fiduciaries in performing an audit designed to comply with Section 404(c) of ERISA. These services include providing a checklist of the latest industry accepted standards with respect to 404(c) compliance and plan efficiency and working with the Plan and Named Fiduciaries to complete the checklist. The checklist typically delineates responsibilities for fulfilling tasks among the vendor, Plan and Advisor.

### **PLAN-LEVEL INVESTMENT ADVICE**

Advisors provide plan-level investment advice by recommending investment vendors, platforms and options for the Plan to make available for participants. In addition, Advisors monitor performance, risk and expense reports for the of the Plan investment options, recommend specific actions and develop an overall asset allocation strategy for Plan clients. In providing plan-level investment advice, Advisors may provide research and analysis regarding investment advice, fiduciary due diligence services and investment products and services. The Advisor may employ

many different calculations, processes and screening techniques to arrive at specific recommendations within the array of investments options offered by each Plan vendor. Such calculations, processes and screening techniques include investment analysis by asset class, market capitalization and investment objective; a review of performance relative to applicable benchmarks and comparable investment options; a review of financial strength, stability and the reputation of the investment vendor; analysis of the individual investment options available through the vendor; a review of the tenure and experience of investment management personnel and the investment philosophy, process, and style of the vendor; and an analysis of the investment fees.

In providing plan-level investment advice, we and your Advisor acknowledge that each is a “fiduciary” with respect to assets of the Plan as ERISA defines that term under Section 3(21)(A)(ii) to the extent it renders investment advice with respect to any moneys or property of such Plan, or has any authority or responsibility to render such investment advice. We may also serve as a fiduciary as defined by ERISA under Section 3(38) by exercising any discretionary authority or control in the management of the plan or disposition of the plan's assets.

## **EMPLOYEE EDUCATION SERVICES**

An Advisor may provide employee education services by conducting meetings with employers and employees on an annual, semiannual or quarterly basis or at other times you may agree on with your Advisor. The scope of the meetings will be for a group or on an individual basis and can be conducted either on site or via teleconferencing as you agreed with your Advisor. An Advisor may conduct employee surveys to determine interest in specific topics and provide other communication services to employees regarding investment education. Finally, Advisors may assist employees with enrollment and re-enrollments in the Plan.

## **Types of Investments**

We and our Advisors offer a wide variety of platforms, products, and services to clients. As a general matter, Advisors are free to choose the products and services they make available to clients, subject to applicable rules and regulations, suitability, appropriate licensure and other policies and procedures. Some Advisors may not consider or be able to offer all of the products and services available through our company.

In some instances, recommendations to one client may be considered appropriate for another one of our other clients. Advisors may recommend similar investments to numerous clients with similar or identical investment objectives or to clients with different objectives. Despite such similarities, recommendations relating to investments and the performance resulting from such recommendations will differ from client to client. We will not necessarily make the same recommendations for all eligible clients. Therefore, not all clients will necessarily be able to participate in the same investment opportunities or participate on the same basis.

**You should promptly notify us if there is ever any change in your financial situation or investment objectives since it may cause us to review, evaluate or revise our previous recommendations and services to you.**

As of December 31, 2018, we managed approximately \$21,745,900,000 in assets for approximately 81,360 clients. Approximately \$14,773,000,000 is managed on a discretionary basis, and approximately \$6,972,000,000 is managed on a non-discretionary basis.

# Fees and Compensation

## Fees

Advisors charge Plan clients for the services above either a flat fee or an asset-based charge in accordance with the ranges described below. Fees for services are negotiable and vary depending on the facts and circumstances of a specific Plan, such as the scope of services to be provided, the duration of services and the size of the Plan client, such as the number of employees, amount of assets and other demographic factors. Our flat fees generally range from \$10,000 to \$100,000, but can be more or less as agreed to with your Advisor; asset-based fees are based upon the market value of the Plan assets and generally range from 0.25 percent to 1 percent of Plan assets. In accordance with ERISA and corresponding interpretations, an Advisor will offset their fees by the amount of payments, if any, received from other sources.

All retirement plan compensation, both Commission and Advisory, received in connection with the establishment and servicing of a retirement plan must be level and may not exceed the amounts set forth in the following grid\*:

Asset Level	Maximum Compensation
Start-up - \$1,999,999	150 basis points
\$2,000,000 - \$4,999,999	125 basis points
\$5,000,000 - \$9,999,999	100 basis points
\$10,000,000 - \$24,999,999	75 basis points
\$25,000,000 and above	50 basis points

\*This grid is exclusive to payments charged to plan assets. Direct payments from the employer plan sponsor that are not deducted out of plan assets do not factor into the maximum compensation amount; however, the total of all compensation from plan and non-plan assets must be reasonable in comparison to the services provided. This grid does not apply to SEPs and SIMPLE IRAs, or Individual/Solo 401(k) plans, nor are those account types contemplated in this brochure. Please request the appropriate ADV 2A brochure from your Advisor.

## **GENERAL INFORMATION ON OUR FEES**

You pay an asset-based fee typically on a quarterly basis in advance or arrears, as determined between you and your Advisor. All fees are negotiable, subject to the maximum amounts set forth above. We may waive or charge a lesser fee from time to time for our services. The fees we charge may be higher or lower than those charged by other advisers for comparable services. The fees that we charge to manage assets in your account may be more than the amount you would pay us to buy or sell securities on a commission basis in a non-managed account.

## **OTHER INFORMATION ON FEES AND COMPENSATION**

You may pay advisory fees to us by check, wire or by authorizing the deduction of fees from an account with us. If you authorize us to deduct fees from your account, you are responsible for fees, charges and other costs associated with the fee deduction. When fees are deducted from accounts, the Advisor or account custodian will send you information reflecting the amount of fees deducted and the asset value upon which the fee is calculated. You will receive a statement at least quarterly from your account custodian showing all amounts disbursed from your account, including the advisory fees paid to us. In the event that we bill you directly for our fees, payment is

due upon receipt of our invoice.

Our Advisors offer a wide variety of securities products and services since we are an investment adviser and are affiliated with a broker-dealer and insurance agency. In addition, the commissions, fees and other forms of compensation paid in connection with the purchase or sale of products and services vary. Accordingly, Advisors have a conflict of interest to the extent they recommend products or services that pay more compensation than other similar products or services available through us or our affiliates.

Although we are affiliated with an insurance agency, we typically do not sell fixed or general account life insurance products or annuities other than certain fixed indexed annuities. Some of our Advisors, in their individual capacities as insurance agents may recommend you purchase fixed or general account insurance products or annuities on a commission basis.

We do not oversee and are not responsible for these insurance sales, however, we do refer our Advisors to certain third party broker general agencies (BGAs) and our affiliated insurance agencies receive compensation from the BGAs if our Advisors use the services of these BGAs. Our Advisors are not required to utilize the services of any BGA to whom we refer business.

In their capacity as a registered representative of our affiliate broker-dealer, our advisors generally recommend various third-party investment vehicles that are subject to initial and ongoing expenses and fees, such as sales loads, servicing fees and management fees. Examples of these collective investments and financial products are mutual funds and variable insurance products. The initial and ongoing expenses and fees of these investment vehicles are disclosed in the applicable offering document of the investment, and are payable by you in addition to any fee we and our Advisors charge. If you purchased investments through another firm and transfer them to an account with us, you generally pay ongoing fees and expenses to the investment product sponsor, or its affiliates, in addition to the fees we charge. For example, if you purchase mutual funds through another company and subsequently transfer those mutual funds to an account with us, you will typically pay ongoing fees and expenses to the mutual fund company in addition to the fees we charge.

Certain plans may opt to participate on the AdvisorEnterprise platform. The amount of compensation your Advisor receives for utilizing this platform is generally more than what your Advisor would receive if utilized our other platforms or programs or separately paid for investment advice, brokerage, and other services. An Advisor receives additional economic benefit as a result of placing business with us in the form of reduced charges for the platforms and services we make available to the Advisor for use with their clients, as well as additional compensation from Kestra AS in the form of an increased payout. An Advisor therefore has a financial incentive to recommend the AdvisorEnterprise Program over other platforms or services we provide, which is a conflict of interest. The reduced charges and additional compensation is generally based on the aggregate amount of assets of the Advisor's clients utilizing platforms and services we and our affiliates provide or other factors in our discretion. Generally, if an Advisor has \$25 million or more in assets under management on the AdvisorEnterprise platform, and the Advisor requests a discount, you will receive discounted execution prices for mutual funds, OTC and listed securities. This discount is not available to all of our clients since it's contingent on total assets under management an Advisor has on the AdvisorEnterprise platform. This additional financial benefit is not shared with you, which creates a conflict of interest based on the incentive for an Advisor to utilize the AdvisorEnterprise platform.



# Performance-based Fees and Compensation

We and our Advisors do not charge performance-based fees.

## Types of Clients

We provide investment advice to Plan clients qualified under Sections 401(a), 401(k), 403(b) or 457(b) of the Internal Revenue Code of 1986 and/or subject to the Employee Retirement Income Security Act of 1974 (ERISA) or which are otherwise considered nonqualified.

We also provide investment advice and services to individuals, corporations and other business organizations, trusts, estates and charitable organizations. We generally require a minimum account level of \$25,000 for a single account or \$10,000 for new accounts where the combined household account value will meet a minimum of \$25,000 of managed assets, although we may waive the account minimum from time to time at our discretion. More information on the services we provide non-Plan clients is found in our other Client Brochure.

## Methods of Analysis, Investment Strategies and Risk of Loss

We analyze investment providers, retirement plan platforms and other service providers by reviewing the background of the vendor, processes used by the vendor and any applicable disclosure documents. We also make available resources from affiliated and unaffiliated third parties for Advisors to use in evaluating the services to provide their Plan clients. Advisors at times perform their own research from third-party resources that are generally available to the public. Performance reports may use a Modified Dietz, Money Weighted Rate of Return or Internal Rate of Return for calculations. It is also possible that systems may change, which would change the methodology used to calculate performance to a Time Weighted Rate of Return.

While we do not have a firm-wide investment strategy, many of our Advisors recommend various forms of strategic asset allocation. An investment strategy is based upon objectives you define in consultation with your Advisor. You may change these objectives at any time. Other strategies an Advisor may use include long-term buy and hold, short-term purchases, and other trading strategies.

Any investment or investment strategy involves some risk of loss you should be prepared to bear. Examples of risk you could face are:

- **Interest rate Risk:** Fluctuations in interest rates generally cause investment values to fluctuate. For example, market values of bonds typically decline when interest rates rise, because the rising rate makes the existing bond yields less attractive.
- **Market Risk:** External factors independent of a security's particular underlying circumstances may impact its value. The value of a security, bond or mutual fund may drop in reaction to tangible and intangible events and conditions, such as a political or social event or an economic condition.
- **Inflation Risk:** Inflation means a dollar today buys more than a dollar next year. When inflation is present, your purchasing power typically decreases at the rate of inflation.

- *Currency Risk*: Overseas investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. Also known as exchange rate risk, these risks may be present in international mutual funds for example. We typically do not recommend purchases of overseas investments.
- *Reinvestment Risk*: The risk that future proceeds from investments may be reinvested at a potentially lower rate of return is reinvestment risk. This risk primarily relates to fixed income securities.
- *Business Risk*: Risks associated with a particular industry or a specific company may impact the value of investments. For example, oil-drilling companies typically have more business risk than electric companies, since they depend on finding oil and then refining it efficiently before they generate a profit. An electric company generates income from customers who buy electricity regardless of economic condition.
- *Liquidity Risk*: Liquidity means the ability to readily convert an investment into cash. Assets with many purchasers are generally more liquid. For example, Treasury Bills are highly liquid, while real estate properties are less so.
- *Financial Risk*: A company with excessive borrowing or that takes significant business risks to generate profit is typically at a greater risk of financial difficulty or failure.

## Disciplinary History

We have periodically been subject to administrative sanctions by state and self-regulatory agencies. A summary of the events is provided below for your reference. Prior to 4/7/2016 we were a dual registrant with our affiliated broker-dealer, Kestra IS (formerly known as NFP Advisor Services, LLC and NFP Securities, Inc.) and a summary of administrative actions applicable to Kestra AS and Kestra IS during the time we were dually registered follows. Additional detail regarding Kestra IS matters is available through FINRA's Broker/Check system.

### **Kestra AS:**

On March 11, 2019, Kestra AS entered into an order by the U.S. Securities and Exchange Commission related to the recommendation of mutual fund share classes generating compensation to Kestra AS's affiliated broker-dealer without adequate disclosure of such compensation and the additional expenses associated with the share classes in violation of Sections 206(2) and 207 of the Advisers Act. Without admitting or denying the underlying findings, Kestra AS offered to accept a censure and pay eligible customers an estimated \$5,628,383.60 in disgorgement and \$567,895.75 in interest.

On July 19, 2016, Kestra AS agreed to pay \$100,000 to the Commonwealth of Massachusetts for failing to register its investment adviser representatives who had a place of business in Massachusetts and ensure that its representatives were properly registered with the Commonwealth prior to providing investment advisory services.

### **Kestra IS:**

On July 16, 2015, Kestra IS agreed to pay FINRA a fine of \$500,000 in connection with the supervision of private securities transactions of registered representatives registered with third party registered investment advisers, preservation of securities-related email, approving and

preserving certain advertising materials, and updating Form U4 for certain representatives in a timely fashion.

On June 20, 2012, Kestra IS agreed to pay FINRA a fine of \$43,121.39 in connection with markups on several corporate bond transactions.

On April 6, 2011, Kestra IS agreed to pay FINRA a fine of \$50,000 in connection with advertising and sales literature published by an Advisor.

On July 15, 2009, Kestra IS agreed to pay FINRA a fine of \$7,500 related to the purchase and sale of municipal securities.

## Other Financial Industry Activities or Affiliations

Kestra IS and Kestra AS are affiliated entities and subsidiaries of Kestra Financial, Inc. Kestra AS utilizes Kestra IS as its primary broker-dealer, and there are inherent conflicts of interest as a result of this arrangement. The conflicts relative to this affiliation are described generally in this section and detailed in the **Brokerage Practices** section below.

If you choose to purchase investment products through Kestra IS, the broker-dealer will receive commissions from an issuer (such as a mutual fund or insurance company) or its affiliate, or will charge brokerage commissions or markups to affect a transaction in stocks or bonds. A portion of the commissions or markups will be paid to the applicable Advisor. Brokerage commissions and markups charged by Kestra IS may be higher or lower than those charged by other broker-dealers. Commissions paid to Kestra IS by an issuer or its affiliate are typically set forth in the applicable offering documents. Mutual funds or their affiliates pay Kestra IS ongoing 12b-1 trailing commissions and shareholder servicing fees applicable to certain share classes purchased for a client account during the period that the client maintains the mutual fund investment. Advisory accounts are credited back an amount equal to the 12b-1 fees Kestra IS receives from the mutual funds, except for 12b-1 fees received by our clearing firm, NFS, in connection with sweep money market mutual funds, which NFS in turn pays to Kestra IS and Kestra IS retains. This credit is only available for accounts custodied at NFS. Other custodians available through Kestra AS, such as Schwab or TDA, retain any 12b-1 and service fees generated from the mutual fund holdings in your account.

There are significant differences between brokerage and advisory services, which are governed by different regulations, offer different compensation structures, and place different obligations on your Advisor. The services provided for brokerage and advisory accounts also differ, and one arrangement may provide a lower overall cost than the other. Compensation for brokerage accounts is typically commission-based. Compensation for advisory services is typically fee-based. These fees may be assessed either as flat fee or based on a percentage of assets under management. In some instances, commissions might be the only compensation available. Typically, your Advisor will either offset the fees by the amount of the commissions received or will not assess a fee for those assets for a period of time.

You may, but are not obligated to, engage our Advisors, in their individual capacities as registered representatives of Kestra IS, to implement investment recommendations on a commission basis. The recommendation to purchase a commission product creates a conflict of interest since the

receipt of commissions provides an incentive to recommend products based on commissions to be received rather than your particular needs. We do not oversee and are not responsible for overseeing the sale of fixed or general account insurance products or annuities sold on a commission basis by an Advisor in their individual agent capacity, except in the case of certain fixed index annuities sold through Kestra IS. You are under no obligation to purchase any commission-based products through our Advisors.

Our Advisors, in their capacity as registered representatives of Kestra IS, have the ability to offer various investment products to advisory clients. Such products include hedge funds, limited partnerships and privately offered securities. Generally, you must meet certain financial, experience or risk tolerance requirements before you may invest in such products through us or Kestra IS. While Kestra IS introduces accounts to NFS, Kestra AS may also use other custodian/clearing firms.

In addition to the advisory fees you pay, when portfolio transactions are effected on behalf of investment advisory clients through our affiliated broker-dealer, Kestra IS receives compensation. This compensation creates a conflict of interest to the extent we recommend products where Kestra IS executes the transaction.

Our parent company, Kestra Financial, Inc., owns other investment advisers, insurance agencies, and service providers (Kestra Affiliates). From time to time, our Advisors will recommend that you purchase or sell products and services of or through Kestra Affiliates, and these Kestra Affiliates, receive compensation as a result. Such a recommendation creates a conflict of interest since it would result in increased compensation to a Kestra Affiliate, and potentially our firm and your Advisor. By way of example, in addition to being a broker-dealer, Kestra IS is an insurance agency through which our Advisors may sell fixed indexed annuities. Advisors recommending that you purchase variable insurance or fixed indexed annuities utilize the services of Kestra IS, and we and your Advisor then directly or indirectly receive compensation in addition to advisory fees you pay. The use of Kestra IS to purchase insurance creates a conflict of interest since we, your Advisor and our affiliate receive compensation in addition to advisory fees you pay.

Our affiliation with such insurance agencies and the additional compensation an Advisor receives, irrespective of our affiliation, creates a conflict of interest to the extent our affiliates or Advisors receive compensation in addition to the advisory fees you pay us.

Kestra Financial, Inc. and Kestra Affiliates are ultimately owned by Kingfisher Holding, LP (Kingfisher). Some of our Advisors own equity in Kingfisher and stand to benefit if Kestra AS and Kestra Affiliates perform well financially. This ownership creates a conflict of interest since Advisors owning equity in Kingfisher have an incentive to recommend the services of Kestra Affiliates.

Other relationships with other Kestra companies include our ability to recommend services of our affiliate, Trinity Financial Services. Trinity Financial Services is an affiliated third party administrator made available to Advisors for recommendation to retirement plan sponsors. The recommendation of Trinity Financial Services creates a conflict of interest since our affiliate would receive increased compensation.

We are affiliated with Arden Trust Company. The recommendation of this company creates a conflict of interest since our affiliate would receive increased compensation.

A number of our Advisors own their own companies or engage in other outside businesses that are not affiliated with our company (each an Outside Business), including but not limited to certain insurance agencies as discussed above. Kestra AS does not provide investment advisory services through these Outside Businesses, does not supervise these businesses and is not responsible for any product or service purchased through these businesses. To the extent you purchase a product or service through an Outside Business, the Advisor or his or her Outside Business will receive compensation in addition to any amount you pay Kestra AS for investment advisory services. Since we do not own or control these Outside Businesses, you should discuss any compensation or other arrangements regarding an Outside Business with your Advisor.

Some of our Advisors are registered with or affiliated with an investment adviser other than our firm. You should read the brochure and any other materials provided by these other investment advisers for information regarding their services and fees if you engage them to provide you advisory services.

## **Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

We maintain a written code of ethics in accordance with the Advisers Act that is intended to promote an ethical culture for our firm. Our code of ethics requires our personnel and Advisors to treat sensitive information confidentially, not misuse material non-public information about client transactions, report violations of the code, and comply with federal securities laws. The code of ethics also requires certain personnel and Advisors to report their personal securities holdings. We will provide a copy of our code of ethics upon request.

Our personnel and Advisors may invest for their own accounts in interests in investment partnerships, venture capital vehicles, and hedge funds and other commingled products or individual investment accounts managed by other advisers we have recommended to you as well. These entities and managers may also separately buy or sell investments that you buy or sell for your own account or that we have recommended to you. Generally, our Advisors and personnel have no ability to influence or control these entities' transactions in securities. If such influence or control did exist, our personnel and Advisors would be subject to policies on employee trading described in our code of ethics and compliance manual to address this conflict of interest.

Our employees and Advisors may invest for their own accounts in securities which may also be recommended, purchased, or sold for you as our advisory client. Our code of ethics requires Advisors to place the interests of clients before their own interests. Our compliance department reviews personnel and Advisor trades each quarter in an effort to ensure that their personal trading does not impact trades for clients and that our clients receive preferential treatment. Personal trades which consist of mutual funds or exchange-traded funds will typically not have an impact on client trading or securities markets.

## **Brokerage Practices**

Our Advisors will oversee and direct the investments of your accounts subject to any limitations you may impose on us in writing. We have an obligation to seek to obtain best execution for transactions in your account. To the extent you have imposed a limitation on brokerage selection,

or have directed us or the Advisor to utilize a certain broker-dealer, we will not have the ability to negotiate commissions among various brokers or to obtain volume discounts. We also may not achieve best execution, and you may pay higher commissions and transaction cost and receive less favorable net prices than other clients as a result.

Kestra IS generally executes transactions for you as an advisory client. We and our affiliates generally receive compensation as a result of acting as an investment advisor, a broker-dealer or both, in addition to the advisory fees charged to your account, when we execute portfolio transactions for you.

Through the custodial agreement between Kestra IS and NFS, NFS remits fees to Kestra IS for each transaction fee mutual fund position held in custody at NFS, and these fees increase as the amount of all of your positions, not limited to transaction fee positions, held in the custody of NFS increases. This compensation creates a conflict of interest as we are incentivized to hold more of your assets at NFS. Your Advisor does not receive any portion of the fees paid to Kestra IS for the custody of your assets.

NFS charges Kestra IS for products and services, and Kestra IS sets its own price for such services. Kestra IS typically charges clients more for these services than it pays to NFS. This practice creates a conflict of interest since we have a financial incentive to recommend Kestra IS and Kestra IS will earn substantial additional compensation for the services it provides. Advisors do not benefit directly from this arrangement.

Kestra IS assesses a \$4.80 trade service fee to offset various ancillary costs associated with transactions that are passed on to the firm by NFS, and are in turn passed by Kestra IS to the client. Clients who opt to receive electronic trade confirmations are still charged the trade service fee as this fee is not specific to postage and handling but also encompasses various transaction costs passed on to the firm from NFS. Examples of these costs include trade confirmations, electronic trade confirmations, quarterly trade confirmations, prospectus and disclosure document delivery, electronic confirming prospectus, tax forms, and monthly and quarterly statements.

Kestra AS does not maintain a uniform commission structure for Advisors utilizing Schwab. Because those advisors may negotiate different pricing schedules, you will be bound by the transaction schedule negotiated by your Advisor for any products and services provided through Schwab, therefore different Advisors at Kestra AS may obtain different pricing from Schwab for the same products and services.

We conduct securities transactions in accordance with applicable rules and regulations and in a manner designed to treat you and other clients fairly and equitably over time. We provide disclosures to you regarding the compensation received by us and/or our Advisors for these transactions. Such transactions include acting as a selling agent on a best efforts basis for new issues of fixed income securities that you have purchased in your account. In this regard, we rely upon our relationship with two third-party broker-dealers named Advisors Asset Management, Inc. (AAM) and SumRidge to complete transactions in fixed income securities your Advisor may recommend for purchase in your account. In such transactions, our affiliated broker-dealer generally receives normal and customary transaction-related compensation as a selling agent for the new issue fixed income security and we will receive advisory fees on the fixed income security in your advisory account. AAM and SumRidge pay Kestra IS compensation for order flow based upon the total amount of fixed income securities executed through those firms. Kestra IS receives up to 25 percent of the concession charged by AAM or SumRidge for all our clients' advisory and

brokerage transactions. The use of AAM and SumRidge to place trades in advisory client accounts creates a conflict of interest since we have an incentive to utilize their services and increase compensation to our affiliates.

We will allocate partially completed trades either in a pro-rata, random fill, or other method designed to treat you and all our clients fairly and equitably over time. The commissions we charge may be higher or lower than those charged by other broker-dealers. We correct our trade errors arising from transactions in your account at our expense; however, we reserve the right to retain any gains that may arise from correcting such errors.

Agency cross transactions take place when we cause a security to be transferred from one client account to another. Kestra AS does not allow agency cross transactions in advisory accounts. Also, we do not direct client securities transactions to obtain research or other benefits, otherwise known as "soft dollars."

We and our Advisors will aggregate orders for your account where aggregation is appropriate and practicable or will result in a more favorable overall execution for you. We will allocate such orders at the average price of the aggregated order. You will pay the same ticket charges on any aggregated orders that you would on non-aggregated orders. Aggregation does not benefit you when your account has trades in mutual funds or exchange-traded funds, and therefore we do not aggregate trades of these securities.

We effect transactions for your account through broker-dealers that refer us advisory business. The use of such broker-dealers for trades in your account creates a conflict of interest since we have an incentive to increase referrals to our company. Commissions and fees may be higher at those broker-dealers than what is charged by other broker-dealers.

Our Advisors will oversee and direct the investments of your accounts subject to the terms of your advisory agreement and any limitations you may impose on us in writing. We have an obligation to seek to obtain best execution for transactions in your account. To the extent you have imposed a limitation on brokerage selection, or have directed us or your Advisor to utilize a certain broker-dealer, we will not have the ability to negotiate commissions among various brokers or to obtain volume discounts. We also may not achieve best execution, and you may pay higher commissions and transaction costs and receive less favorable net pricing than other clients as a result.

Investment advisers must act in the best interest of their clients, including the selection of appropriate mutual fund share classes, and disclose fees associated with the recommended share classes. A single mutual fund may offer more than one "class" of its shares to investors, but each class represents a similar interest in the mutual fund's portfolio. The principal difference between the classes is that the mutual fund charges different fees and expenses on the various share classes based primarily on the amount invested. These fees and expenses negatively impact investment returns. You should discuss with your Advisor what share classes might be appropriate for you depending on your investment objectives and time horizon among other things.

We make available the mutual funds and share classes available through the applicable brokerage or clearing platform. The brokerage or clearing platforms do not make available all share classes of all mutual funds or all mutual fund families. Due to their higher expenses, we do not allow B or C share mutual funds to be purchased in Advisory accounts, and we only allow shares of mutual funds to be purchased in an advisory account when the sales load (commission) has been waived or if the share class is designated for retirement plans. Even within a share class, expenses will

vary by fund and by fund company. Please be sure to review the prospectus for a description of the costs and expenses associated with that fund.

Kestra IS receives securities service fees, 12b-1 fees and other third-party payments if you implement our recommendations through our affiliated broker-dealer. Relative to your mutual fund purchases, for the period in which you maintain an investment with the mutual fund, our affiliated broker-dealer will receive ongoing 12b-1 and service fees directly from the mutual fund company or ongoing fees from the adviser, underwriter or distributor of the mutual fund. Mutual funds with 12b-1 fees are generally more expensive than those funds without such fees. There is a conflict of interest when we recommend these products or services since they result in increased compensation to our affiliated broker-dealer. To mitigate this conflict of interest, we credit back to your account an amount equal to the 12b-1 and service fees collected in connection with your advisory assets, except for 12b-1 fees generated through the default sweep money market mutual funds available on the NFS platform, which NFS remits to Kestra IS and Kestra IS retains. Other custodians available through Kestra AS, such as Schwab or TDA, retain any 12b-1 and service fees generated from the mutual fund holdings in your account.

NFS and IWS offer a no-transaction-fee (NTF) program where the transaction charge is waived for the purchase and sale of mutual funds participating in the program. Other mutual funds participate in a program where the transaction charge is waived for the purchase of mutual funds but not the sale. Participating funds compensate NFS or IWS as applicable, which in turn compensates us or our affiliated broker-dealer based on the amount of assets invested in those funds. As a result, we have a conflict of interest to the extent Advisors recommend these funds, because we or our affiliated broker-dealer will receive compensation in addition to any advisory fees you pay. If your Advisor absorbs the transaction fees for your account, the NTF program creates a conflict of interest as it results in increased compensation to your Advisor. The funds in the program also have higher expense ratios than similar funds not in the program. Thus over time, you will pay higher costs for funds in this program than you would for non-NTF funds subject to transaction charges.

Kestra IS offers a no-transaction-fee (NTF) program where the transaction charge is waived for the purchase and sale of ETFs participating in the program. Other ETFs participate in a program where the transaction charge is waived for the purchase of ETFs but not the sale. Participating funds pay our affiliate a rate based on the amount of assets invested in those funds and the expense ratio of the fund. As a result, we have a conflict of interest to the extent Advisors recommend these funds, because our affiliated broker-dealer will receive compensation in addition to any advisory fees you pay. If your Advisor absorbs the transaction fees for your account, the NTF program creates a conflict of interest as it results in increased compensation to your Advisor.

When you establish an account with Kestra IS on the NFS platform, you are required to select money market mutual fund in which the cash in your account will be held. The FDIC bank deposit sweep program is the default option for cash contributed to non-entity (individual) accounts and we receive more from NFS for assets held in that sweep program than we do for assets placed into a money market fund. Entities are not eligible to participate in the bank deposit sweep program.

In addition to a bank sweep deposit option, Kestra IS makes available a limited number of money market funds that you may elect to have serve as the cash sweep vehicle for your brokerage account. Pursuant to Kestra IS's clearing agreement with NFS, NFS remits to Kestra IS the amount of 12b-1 fees and shareholding servicing fees for money market mutual funds affiliated with or specified by NFS in amounts set forth in the prospectus or other offering document for such funds, plus ten basis points of amounts invested in such funds. The higher the 12b-1 fees paid by



the money market mutual fund, the lower the yield on cash in your account. This revenue sharing creates a conflict of interest as the increased revenue generated from the default money market funds is paid to our affiliated broker dealer. Because our affiliated broker-dealer receives and retains these amounts, we have an incentive to recommend a brokerage account offering sweep money market funds paying 12b-1 fees, which in turn will negatively impact the amount you earn on cash in your account. Our Advisors do not receive any portion of the money market compensation paid to Kestra IS.

Kestra IS does not make available other share classes of the sweep money market funds, including those that do not pay 12b-1 fees; however, you may purchase other money market funds, including those that do not pay 12b-1 fees, and move assets from the money market fund or bank deposit account that serves as your cash sweep vehicle into such other funds. While you are not obligated to maintain your assets in the core sweep money market fund or bank deposit sweep account you select, cash in your brokerage account will be placed in the sweep option you select by default and remain in that sweep option until the funds are invested elsewhere or you withdraw the cash from your account.

## **Review of Accounts**

Our Advisors will contact you, and typically meet with you at least annually, to review the performance of your account and any changes to your Plan's financial situation and investment goals and objectives. In addition, our Advisors typically review the quarterly performance report received from your account custodian. Advisors may also perform account reviews more frequently when market conditions dictate. Other conditions that may trigger a review are changes in laws, new investment information and changes in your own situation. We also require you, in our standard client agreement, to inform your Advisor promptly of any changes to your information, including changes to your financial situation or investment objectives and policies. You will receive confirmations of all transactions, monthly statements and/or quarterly performance reports from the designated custodian of your Plan assets. Our Advisors and our home office personnel are typically available during normal business hours to answer questions or concerns you may have.

## **Client Referrals and Other Compensation**

We compensate various affiliated and unaffiliated third parties called "solicitors" to refer us clients and prospects they believe would benefit from our investment advisory services. Any such arrangements will be designed to comply with the Advisers Act, which requires, among other things, that you receive this brochure, we have an agreement with the solicitor, and that you receive a compensation disclosure detailing the amount we will pay the solicitor that referred you.

We may also enter into arrangements wherein we and our Advisors refer you to affiliated and unaffiliated investment advisers that will provide advisory services to you. When we make such a referral, we and our Advisor will typically receive a portion of the total fee the investment adviser charges you for as long as they provide you services. Any such arrangements will be designed to comply with the Advisers Act.

We have arrangements with various third-party managers or service providers that our Advisors may refer you to. We receive compensation from these managers or service providers to support conferences, training, marketing efforts, staffing, ongoing education of Advisors and the marketing

efforts we perform on their behalf. These fees are negotiable, and can be up to \$720,000. The third-party managers or service providers with which we currently have such arrangements are: BTS, Clark Capital Management Group, Morningstar, AssetMark, SEI Investments Management Corporation ("SEI"), Brinker Capital, LWI Financial, City National Rochdale, Symmetry Partners, CLS Investment Management, Horizon Investments

In addition, Loring Ward offers all Advisors with assets on their platform a basic subscription to MoneyGuidePro at no cost to the Advisor. Furthermore, Advisors can pay \$660 to receive an upgraded version of MoneyGuidePro with Loring Ward's data integrated into the software. Those Advisors who place at least \$10MM on Loring Ward's platform receive the upgrade at no cost. This creates a conflict interest because it incentivizes an Advisor to place business with Loring Ward in exchange for software access.

Our Chief Compliance Officer is available to address any questions that a client or prospective client may have regarding our services, compensation or conflicts of interest.

We or our affiliated broker-dealer make available hundreds of different mutual fund and variable insurance products to our representatives and customers. We also make available many retirement vehicles such as 401(k) and group annuity products, as well as alternative investment products such as limited partnerships, real estate investment trusts, and hedge fund products. Our Advisors are free to choose what products they sell to customers from among these many products. Because of the numerous investment and insurance alternatives available, we and our affiliates focus on the sale of products of a select number of providers ("Select Providers"). Select Providers are given increased access to our Advisors for the purpose of providing marketing, education, and product support.

We or our affiliated broker-dealer receive both financial and non-financial support from certain mutual fund, insurance and other companies or their affiliates based upon the sale of such companies' products. We or our affiliate receive more compensation for the sale of products of Select Providers than for the products of other providers we sell and thus have a financial incentive to sell the products of Select Providers. The amounts and forms of compensation we or our affiliate receive from Select Providers vary based on a number of factors including level of past sales, prospective future sales, and the types of service and access to distribution we provide. We or our affiliate receive one or more of the forms of compensation described below in connection with our arrangements with each Select Provider. These payments are made from the resources of the investment adviser or distributor (or one of their affiliates) in the case of mutual fund Select Providers, and from the resources of the insurance company (or its affiliate) in the case of variable annuities, group annuities, and variable life products. These payments are in addition to the sales charges, service fees, redemption fees, deferred sales charges and other fees and charges described in the prospectus fee tables or offering documents of the various products.

The select provider payments listed below are as of the date of this filing and subject to change. These relationships create a conflict of interest as they result in increased compensation to us, your Advisor or our affiliates.

Please visit our website <https://www.kestrafinancial.com/disclosures/company-information> more information regarding the companies and amounts and types of compensation we receive. If you do not have access to our website, you may contact your Advisor or our home office for additional information.

### **Mutual Funds and ETFs**

Select Providers of mutual funds and ETFs pay us or our affiliate either an amount of up to 0.07% on AUM for products attributable to us, or 20% of the overall net expense ratio of no transaction fee funds, or fixed fees of up to \$200,000 annually to support and participate in various conferences and seminars conducted by us and our affiliates.

### **Variable Annuities**

Select Providers of variable annuities pay us or our affiliate an amount of up to 0.25% of the amount of our new sales of their products quarterly. Such providers may also pay us or our affiliate fixed fees of up to \$65,000 annually to support and participate in various conferences and seminars conducted by us and our affiliates.

### **Equity and Fixed Indexed Annuities**

Select providers of equity and fixed indexed annuities pay us or our affiliate an amount of up to 0.50% based on gross new sales volume. Such providers may also pay us or our affiliate fixed fees of up to \$65,000 annually to support and participate in various conferences and seminars conducted by us and our affiliates.

### **Retirement Products**

Select Providers of 401(k), group annuity and other retirement products pay fixed fees for the benefit of Kestra AS or its affiliates up to \$250,000 annually to support and participate in conferences and seminars.

### **Alternative Investments**

Select Providers of alternative investment products, including limited partnership, real estate investment trust (REIT), and hedge fund products, pay us or our affiliate an amount of up to 1.50% of new investments in such products. In addition, such providers pay us or our affiliate fixed fees of up to \$75,000 annually to support and participate in conferences and seminars. Select Providers of alternative investment products also pay us or our affiliates an initial fee of up to \$5,000 and an annual fee of up to \$1,500 to support the due diligence efforts of Kestra IS and its affiliates related to such products and providers.

### **Variable Life Insurance**

Select Providers of variable life insurance products may pay Kestra IS or our affiliated insurance agencies wholesale overrides in an amount of up to approximately 31% of first year target premium and an amount of up to approximately 4% of any renewal premiums. Select Providers of variable life products also pay us or our affiliate up to \$45,000 annually to support various workshops and meetings, to support development of account management tools and other technology and to support our due diligence efforts. In the case of variable life insurance products, Select Providers provide a variety of policy and underwriting support services to Kestra IS, our affiliate and our Advisors. Kestra IS may pay our Advisors a higher percentage of compensation for sales of Select Provider variable life insurance products than for other such products we sell.

Generally, you may purchase alternative investments on a commission basis through your Advisor in their capacity as a registered representative of Kestra IS, or purchase such investments at net asset value (NAV) in an advisory account, in which case your Advisor will charge an ongoing advisory fee as a percentage of the investment's value. There are different costs associated with purchasing these investments with a commission or at NAV. You and your Advisor must evaluate and determine which option is most appropriate based on the services being provided, and how long you anticipate holding the investment, among other factors. If you choose to purchase an alternative investment on a commission basis, we will not charge an advisory fee on the value of

that investment. Should your alternative investment, after a period of time, be converted by the issuer to an advisory share class, it will be eligible at that time to be assessed an advisory fee. Note that you will likely pay more in advisory fees versus up-front commissions over the typical holding period of these investments.

We require illiquid alternative investments subject to fee billing in advisory accounts to be valued at NAV. This valuation serves as the basis for fee calculations for advisory accounts where fees are assessed based on assets under management (AUM). NAV for illiquid alternative investments may be calculated as often as quarterly but no less frequently than annually. In the case where an alternative investment is valued annually, the underlying value of the asset may fluctuate, but the NAV will continue to serve as the basis for the AUM calculation. This could result in you experiencing higher or lower fees than if the NAV were calculated more frequently.

We or our affiliated broker-dealer generally charge a non-refundable due diligence fee to third-party managers or product sponsors considered for inclusion in our investment platforms available to Advisors. We do not share these fees with our Advisors. Paying such a fee does not guarantee acceptance on any of our platforms or access to our Advisors. Initial fees charged may be up to \$5,000, depending on the complexity of the manager and the resources we need to perform the due diligence. Thereafter, the due diligence fee is typically \$1,500 annually, but may be more or less than this amount based upon the third-party manager or product sponsor and the nature of the product or services. We may waive these fees.

Kestra IS sponsors a Free Ticket Program through which we provide clients the opportunity to place trades for select mutual funds and ETFs at no cost to the Advisor or client. We are able to provide the Free Ticket Program because certain fund families have agreed to pay or reimburse our affiliate broker dealer for trading costs associated with their funds. These Free Ticket Funds can be purchased and exchanged at NFS without trading fees to our Advisors and their clients. However, there are trading fees on the sale of these same funds. Some participants of the Free Ticket Program may also be Select Providers. While there are no transaction costs associated with the purchase or exchange of these mutual funds and ETFs, they may not provide the lowest overall costs over time when compared to mutual funds or ETFs with transaction fees. This relationship creates a conflict of interest as it results in increased compensation to our affiliates and to your Advisor to the extent your advisor would normally absorb any trading costs.

We have entered, through our affiliated broker-dealer, into a custodial support services agreement with NFS and Fidelity Brokerage Services, LLC in connection with our participation in their Fidelity Institutional Wealth Services (IWS) platform. We provide back-office, administrative, custodial support and clerical services in connection with your accounts on the IWS platform. For these services, we receive an amount of up to 0.28 percent of our client assets on the IWS Platform.

Kestra IS has entered into a Securities Backed Lending (SBLOC) program with The Bancorp Bank, Tristate Capital Bank, and Goldman Sachs Private Bank Select. This program allows clients to collateralize their securities in order to obtain a line of credit. In consideration of the marketing of the products by Kestra IS to its clients, The Bancorp Bank, Tristate Capital Bank, and Goldman Sachs Private Bank Select pay Kestra IS quarterly revenue sharing payments based on the average daily outstanding loan balance (total loan amount) of the SBLOC. Additional details are available regarding this calculation upon request.

To the extent we utilize the services of other broker-dealers and custodians to execute or assist us in filling customer trade orders, we generally receive compensation from such broker-dealers in connection with the trades. In addition, we may receive execution price discounts and other

compensation from these custodians and broker-dealers.

In order to help cover or defray the costs of transitioning from another investment adviser to Kestra AS, our Advisors receive various forms and amounts of transition assistance. Such transition assistance may include loans, rent, technology services and equipment, legal expenses, administrative support, termination fees associated with moving accounts and regulatory services, payments based on production, reimbursement of fees, free or reduced-cost marketing materials, attendance at conferences and events, and access to preferred pricing. We receive compensation from our custodians to offset the cost of transitioning assets.

We make loans to Advisors which may be forgivable based on years of service with Kestra AS or its affiliates, assets under management, the amount of production with us or our affiliates or some combination of these factors. This practice creates a conflict of interest since the Advisor has a financial incentive to recommend a client engage Kestra AS for advisory services, engage Kestra AS for brokerage services, and to recommend additional products and services in order for their loan to be forgiven.

## **Custody**

We and our Advisors do not hold or maintain your assets. Third-party qualified custodians hold and maintain your assets, and those custodians provide account statements directly to you at your address of record at least quarterly. We urge you to compare the account statements you receive from your account custodian with any performance report or statements we, our service providers, or our Advisors may create for you and to contact us with any questions.

Though we do not maintain custody of client accounts, we do have custody over certain assets of clients as defined under the Advisers Act. For example, some of our Advisors act as a trustee for a trust account of a client or we may take possession of physical security certificates and forward them to your account custodian as an accommodation.

## **Investment Discretion**

Unless we grant specific authority and approval to your Advisor, your Advisor is typically not granted absolute trading discretion on Plan client assets. Absolute trading discretion means placing a trade in your account without your approval. When this authority is granted by approval, we may serve as a fiduciary as defined by ERISA under Section 3(38) by exercising any discretionary authority or control in the management of the plan or disposition of the plan's assets. To the extent they are fiduciaries, Kestra AS and Advisor each acknowledge that it is subject to and will at all times exercise the standards of fiduciary responsibility set forth in Title 1, Subtitle B, Part 4 of ERISA. While we may approve an Advisor to offer 3(38) fiduciary services, you must contract with our advisor to act in that capacity as well. You may also engage our Advisor to serve as a 3(21) fiduciary to provide non-discretionary investment advice.

## **Voting Client Securities**

We do not, nor do our Advisors, vote proxies for any clients.

## Financial Information

We do not have any financial condition likely to impair us from meeting our contractual commitments to you.

## Miscellaneous

### Termination of Accounts

Typically, both you and our company have the option under our standard agreements to terminate the agreement at any time. In addition, you have the right to terminate the contract without penalty within five business days after entering into the contract. If you pay a fee in advance, fees will be pro-rated from the termination date and refunded to you.

### Compliance Policies and Procedures

We maintain written compliance policies and procedures as required by the Advisers Act.

### Anti-money Laundering Program

We maintain an anti-money laundering program in accordance with applicable regulations.

### Business Continuity Plan

We maintain a business continuity plan designed to minimize the impact of disasters, emergencies and other unforeseen circumstances on our services and communications. A description of our Business Continuity Plan is available on our website at <https://www.kestrafinancial.com/disclosures/company-information>, or by contacting your Advisor or our home office.