

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

# **Kestra Institutional Services, LLC**

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**Dated: March 29, 2018**

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

**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 our firm and requesting one.

Since our last annual update, there have been no material changes.

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# Advisory Business

## Introduction

This brochure describes the investment advisory services we provide. We provide investment advice to other third-party registered investment advisers (RIAs) by making available a variety of services (RIA Services) for use by the RIAs with their clients. The RIA Services include technology applications, operational support, and administrative infrastructure, access to service providers and access to financial products among others.

The RIA Services we offer to other RIAs include: (1) RIA as Manager Accounts; (2) Wrap Fee Program; and (3) Retirement Services. These services are described in more detail below. The RIA Services provided to and available from third-party RIAs may differ from RIA to RIA.

## RIA Services

### **RIA as MANAGER ACCOUNTS**

With an RIA as Manager Account, or RIA Managed Account, RIAs assist their clients in developing a personalized asset allocation program and custom-tailored portfolio designed to meet the clients' investment objectives. The recommended portfolio generally includes investments such as mutual fund shares (including no-load mutual funds and/or loaded funds purchased at net asset value), exchange-traded funds, variable annuities, individual equity securities, individual fixed income securities, direct participation programs, alternative investments or a combination thereof. We provide customizable software programs through Web-enabled platforms (platforms) so that the RIA provides an RIA Managed Account for their clients. Our relationship with Envestnet Asset Management, Inc. (Envestnet) allows us to provide the platforms. Please see the Envestnet Brochure for more information on the services they provide.

RIAs render investment advice to their clients combined with portfolio administration and reporting services, advisory fee processing and account reconciliation. RIAs are able to provide an RIA Managed Account by using tools, resources and technology we provide on the platform, which include the ability to produce detailed proposals, create investment models, allocate assets, monitor specifications on an account, aggregate trades and rebalance an account.

Prior to opening an RIA Managed Account through our platforms, an RIA is responsible for gathering information from their clients, such as, among other things, the client's investment experience, investment time horizon, investment objectives, risk tolerance and general financial condition in order to create an investment profile for their client. Kestra Institutional has no responsibility for supervision over this process by RIAs. An RIA, and not Kestra Institutional, is responsible for determining whether Kestra Institutional and an RIA Managed Account are suitable for a client. An RIA and their client compile pertinent financial and demographic information to develop an investment program and portfolio that will meet their client's goals and objectives. These investment profiles help RIAs determine appropriate investment products and services available through Kestra Institutional. The client's information is forwarded to Kestra Institutional to assist the RIA in recommending an appropriate strategy for their client. Kestra Institutional relies on its relationship with Envestnet and their internal research team, who use a number of proprietary analytical tools and commercially available optimization software

applications in providing such assistance to RIAs. Among the factors considered in designing these strategies are historical rates of risk and return for various asset classes, correlation across asset classes and risk premiums.

An RIA Managed Account will be opened through a separate contract that will provide Kestra Institutional and Envestnet with limited trading authority to purchase and sell securities pursuant to the investment objectives chosen by the RIA and their client. RIAs and their clients will also receive a copy of our Brochure and Privacy Policy.

An RIA Managed Account will typically consist of a percentage of securities from various asset classes. The percentage weightings within the asset classes will be based on the risk profile, investment objectives and individual preferences as communicated and determined by the RIA. RIAs are responsible for meeting with their clients periodically to review the assets in an RIA Managed Account. Clients are encouraged to contact their RIA should they have questions about the management of an RIA Managed Account. Performance information is not compiled or presented by Kestra Institutional, but third parties made available to RIAs through Kestra Institutional may compile or present performance information. RIAs are responsible for reviewing performance of RIA Managed Accounts.

An RIA, or their client, will at all times maintain full and complete ownership rights (i.e., the right to add or withdraw securities or cash, pledge securities, vote securities and/or receive timely confirmations) to all assets held in an RIA Managed Account. RIA Managed Account assets will at no time be “pooled for investment” by us. RIA Managed Accounts through Kestra Institutional are intended to comply with Rule 3a-4 under the Investment Company Act of 1940 (1940 Act) and each account is managed on the basis of the client’s individual financial situation by the RIA. Each client will have the opportunity with their RIA to select the account’s investment objective and impose reasonable restrictions on the management of the assets in the account. In addition, RIAs are responsible for contacting clients annually and notifying them quarterly in order to confirm the accuracy of information regarding this client.

Clients of RIAs will also enter into separate custodial clearing agreements to choose a custodian for their RIA Managed Account. Kestra Institutional will not have custody of the assets, securities or funds of RIAs or their clients in RIA Managed Accounts. Transactions in RIA Managed Accounts are cleared pursuant to a clearing and custody agreement between Kestra Institutional and the third-party custodian chosen by the client. Custodians that clear trades for RIA Managed Accounts include Charles Schwab, & Co., National Financial Services, LLC and Fidelity Institutional Wealth Services, but other alternative clearing and custody arrangements may be designated by Kestra Institutional from time to time. To the extent a client chooses a custodian for an RIA Managed Account with Kestra Institutional, a client is directing us and their RIA to use that certain custodian and broker for equity and mutual fund trades in their RIA Managed Account. By doing so, Kestra Institutional does not have authority to negotiate commissions among various brokers or to obtain volume discounts, and best execution may not be achieved. RIAs and their clients may pay higher commissions and transaction cost, and receive less favorable net prices than other clients.

## **WRAP FEE PROGRAM**

### **Kestra Institutional Wrap Fee Program**

Through our relationship with Envestnet, we sponsor a privately labeled wrap-fee program. The fees you pay in this program generally cover costs related to security transactions as well as

fees payable to us, the RIA, the custodian and any third party as appropriate. Please see our Wrap Fee Program Brochure for details and a corresponding fee schedule regarding this wrap-fee program.

## **RETIREMENT SERVICES**

We also provide services to assist RIAs with retirement accounts of their clients such as individual retirement accounts (IRA) and retirement plans (Plans). Services to IRA clients of RIAs include those described above.

Please note: A client leaving an employer typically has four options (and may engage in a combination of these options): i) leave the money in the former employer's plan, if permitted, ii) roll over the assets to the new employer's plan, if one is available and rollovers are permitted, iii) rollover to an IRA, or iv) cash out the account value (which could, depending upon the client's age, result in adverse tax consequences). A recommendation to roll assets out of an employer-sponsored plan into an IRA will most likely result in more expenses and charges than if the assets were to remain in the plan.

Please note that we will not be responsible for obtaining or paying the premiums on any bond required pursuant to ERISA. We have no authority and are not required to vote proxies for securities comprising Plan or IRA assets.

## **Other Services We Provide**

## **ADMINISTRATIVE SERVICES**

An RIA may provide advisory services to their clients separate from the platform and services made available by Kestra Institutional as described above. In these circumstances, Kestra Institutional only provides administrative services to the RIA, such as access to various custodial or clearing firms to RIAs and fee-billings services for accounts of RIA clients. Kestra Institutional will not provide any advisory services to an RIA for these accounts. An RIA, and not Kestra Institutional, is responsible for all aspects of these client relationships, including gathering information from their clients and determining suitability, as well as processing of these accounts with the applicable custodian or clearing firm. Clients are responsible for any and all Transaction Charges of the applicable custodian chosen by the client or RIA. Kestra Institutional has no responsibility for supervision over this process by RIAs, and an RIA, not Kestra Institutional, is responsible for determining suitability over such accounts.

## **THIRD-PARTY MANAGEMENT SERVICES**

Separate from the RIA Managed Accounts and advisory services above, Kestra Institutional also make available to RIAs access to various third parties that provide or sponsor different types of money management services and investment advisory programs. Typically, RIAs will act as a solicitor for the third party in accordance with rule 206(4)-3 under the Advisers Act or as a co-advisor with the third party. Depending on the structure of the relationship with the third party, Kestra Institutional may or may not have any direct relationship with the RIA and clients. For example, Kestra Institutional may not perform services for the RIA and their clients, and they may or may not receive our disclosure Brochure. Any fees that Kestra Institutional receives from these arrangements are usually based upon a percentage of the advisory fee charged by

the third party chosen by the RIA or the RIA. RIA Clients should read the third-party adviser's Brochure, investment advisory agreement and any compensation disclosure statements provided in connection with these arrangements for information regarding the services of the third-party adviser and applicable fees and charges.

As of Dec. 31, 2018, we managed \$0 in assets for approximately 0 clients. Approximately \$0 is managed on a discretionary basis, and approximately \$0 is managed on a non-discretionary basis.

## **Fees and Compensation**

Kestra Institutional fees for an RIA Managed Account range from 0.05 percent to 0.25 percent and are based upon a variety of factors, such as the value of an RIA's assets under management, the products or services chosen by an RIA, the nature of services we provide to the RIA and whether the RIA is using any third-party platform or program. Our fees for the RIA Managed Account are separate from, and in addition to, any fees and costs charged by an RIA to their client, as well as any costs and expenses related to custody or transactions of an RIA client's assets. Regardless of what amount an RIA charges a client as an advisory fee, an RIA as Manager Account with Kestra Institutional will be subject to a minimum platform fee of up to 0.05 percent. Asset-based fees are generally paid quarterly in advance based upon the fair market value of account assets on the last business day of the preceding quarter or quarterly in arrears based upon the last business day of the quarter. We may waive or charge clients a lesser fee from time to time. The advisory fees we charge may be higher or lower than those charged by other advisers for comparable services, but such costs are generally within a competitive range for similar services. The advisory fees we charge on an RIA Managed Account may be more or less than the amount an RIA or their client would pay to buy or sell securities separately on a commission basis in a non-managed account and may exceed the advisory fees charged by other investment advisers for similar services. An RIA will receive compensation as a result of a client's participation with Kestra Institutional. The amount of this compensation may be more than what your RIA would receive if you participated in other programs of ours or our affiliates or separately paid for investment advice, brokerage and other services. An RIA typically receives additional economic benefit as a result of your business with Kestra Institutional in the form of reduced charges for the platforms and services Kestra Institutional makes available to the RIA for use with its clients. These reduced charges may be based upon the aggregate amount of assets of the RIA's clients that utilize the platforms and services of Kestra Institutional or other factors in our discretion. An RIA therefore has a financial incentive to recommend Kestra Institutional and an RIA Managed Account over other platforms or services Kestra Institutional or its affiliates offer or that are otherwise available to an RIA. Generally, an RIA Managed Account with Kestra Institutional requires 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 at our discretion.

An RIA Managed Account is typically assessed ticket charges (transaction charges) related to activity in the account. Transaction charges will be in accordance with the then-current transaction fee schedule of the custodian or broker-dealer introducing or clearing the transaction. In addition, various third-party investments or third-party investment vehicles in an RIA Managed Account, such as mutual funds, variable annuities, real estate investment trusts and partnerships that invest in securities, including other partnerships, hedge funds and other financial products are often subject to initial and ongoing expenses and fees (e.g., management

expenses, shareholder servicing fees, etc.) as set forth in the applicable offering document of the investment and are payable by clients in addition to any fee Kestra Institutional charges.

Through our relationship with Envestnet, Envestnet pays us compensation based upon a percentage of client assets invested with the following third-party managers and product sponsors: 3 D Asset Management, Alpha Simplex Group, Astor, Beacon, AXA Advisors Beaumont Capital Management, BlackRock, Braver Capital, Brinker Capital, BTS, Clark Capital, CLS Investments, Cougar, DiMeo Schneider & Associates, Horizon, ICON, InnealtaCapital, Nationwide Advisory Solutions (formerly Jefferson National), Loring Ward, Morningstar Investment Services, Niemann, Portfolio Management Consultants, Nationwide Financial, Russell Investments, SEI, SIGMA,S&P, Symmetry Partners , Weatherstone, and Vanguard. Such compensation may be up to 0.33 percent of our clients' assets under management with these third-party managers. These relationships create a conflict of interest as they result in increased compensation to us, although our Advisors do not share in such compensation.

## **Performance-Based Fees and Compensation**

We do not charge performance based fees.

## **Types of Clients**

Our clients are RIAs who use our services to provide investment advice to their various types of clients, such as individuals, pension and profit-sharing plans, 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 at our discretion.

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

Through our relationships with Envestnet and other custodial and clearing firms, we make available investment products and services to RIAs. Such investment products and services are reviewed and approved by RIAs for RIA Managed Accounts. As applicable, RIAs analyze the investment products and services of third-party managers by reviewing the background of persons associated with the manager, the manager's investment process, investment philosophy, methodology used within the program, and disclosure documents related to the program. RIAs at times perform their own research on various securities and or programs through third-party resources available to the public.

## **Disciplinary History**

We have no legal or disciplinary events relating to our firm's services.



## Other Financial Industry Activities or Affiliations

Kestra Financial, Inc. owns other registered investment advisers, insurance agencies and other product and service providers (Kestra Affiliates). From time to time, we may recommend or provide products and services from or through Kestra Affiliates, and these Kestra Affiliates and our firm generally receive compensation as a result of such recommendations. Recommending or providing products or services by or through a Kestra Affiliate would be deemed to create a conflict of interest since it would result in increased compensation to a Kestra Affiliate. We use the same research, selection and review process for any Kestra Affiliate as we do unaffiliated firms.

Although we primarily provide investment advice to RIAs and their clients, we also provide technology applications, operational support, administrative infrastructure, access to service providers, and other financial services tools to assist RIAs in their business as an investment adviser. Such other business activities include: a customizable asset management software program through a Web-enabled platform, reporting services for account holdings and performance, back-office account setup and processing, fee billing for accounts and aggregation of client data for RIAs. Employees and agents of RIAs may also be registered securities representatives of an affiliated broker-dealer of ours, Kestra Investment Services, LLC (Kestra IS); registered investment adviser representatives of an affiliated RIA of ours, Kestra Private Wealth Services, LLC (Kestra PWS); or independently licensed as insurance agents. Kestra IS and Kestra PWS are subsidiaries of Kestra Financial, Inc. As a general matter, Kestra Institutional does not provide fixed insurance products or insurance services, and to the extent an RIA provides such insurance products or services to clients, they do so outside of the supervision of Kestra Institutional.

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 to the extent they provide brokerage services. Compensation for advisory services is typically fee-based: either a flat fee or one based on a percentage of assets under management. 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.

Kestra Financial, Inc. owns other investment advisers, insurance agencies and other product and service providers (Kestra Affiliates). From time to time, we may recommend products and services of or through Kestra Affiliates, and these Kestra Affiliates, as well as our firm, generally receives compensation as a result. Such a recommendation would be deemed to create a conflict of interest since it would result in increased compensation to a Kestra Affiliate and our firm. By way of example, we are affiliated with various insurance agencies and brokers that purchase and sell insurance. RIA personnel may also be licensed insurance agents or assist in the purchase or sale of insurance policies. The purchase or sale of insurance through an affiliated insurance agency such as Kestra IS or Kestra Insurance Services, LLC, or broker creates a conflict of interest since that affiliate would receive compensation in connection with the transaction in addition to any advisory fees you pay him or her. Our affiliation with such insurance agencies and brokers, and the additional compensation an RIA generally receives

irrespective of our affiliation, creates a conflict of interest to the extent our affiliates or RIAs receive compensation in addition to the advisory fees we receive.

As a general matter, no entity owned by Kestra Financial will oversee and are not responsible for overseeing the sale of fixed or general account insurance products or annuities sold on a commission basis by personnel of an RIA in their individual agent capacity, except in the case of certain fixed index annuities sold through Kestra IS. The recommendation to purchase a commission product presents a conflict of interest since the receipt of commissions provides an incentive to recommend insurance products based on commissions to be received, rather than your particular needs. You are under no obligation to purchase any commission products from RIAs or their associated persons.

Kestra Institutional Services is owned by Kestra Financial, Inc., which is indirectly owned by Trident VI Parallel Fund, L.P. and Trident VI, L.P. (together, the "Trident VI Funds"). Stone Point Capital LLC, a registered investment adviser, is the investment manager of the Trident VI Funds. Stone Point Capital LLC manages private equity funds (including the Trident VI Funds) that generally invest in companies operating in the financial services industry. One such company, SumRidge Partners, LLC ("SumRidge"), is a broker-dealer in which certain private equity funds managed by Stone Point Capital LLC (but not the Trident VI Funds) have a minority economic interest. Your Advisor may periodically direct client trades to SumRidge. Notwithstanding the above, Kestra Institutional's management believes that none of the indirect relationships that Kestra Institutional may have with any such companies, including SumRidge, through common control or its indirect relationship with Stone Point Capital LLC, are material to the business of Kestra Institutional or cause a conflict of interest with Kestra Institutional's activities on behalf of its clients. Advisors may not act with discretion in advisory accounts where fixed income transactions utilizing SumRidge will take place.

Kestra Financial, Inc. and Kestra Affiliates are ultimately owned by Kestra Financial Holdings LP (Kestra FH). To the extent your Advisor owns equity in Kestra FH, they stand to benefit if Kestra Affiliates perform well financially. This ownership creates a conflict of interest since Advisors owning equity in Kestra FH 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 Reliance Trust Company of Delaware. The recommendation of this company creates a conflict of interest since our affiliate would receive increased compensation.

You should read the brochure of your RIA and any other materials provided by these other investment advisers for information regarding their services and fees if you engage them to provide 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 create an ethical culture for our firm. Our code of ethics requires our personnel 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 to report their personal securities holdings. We will provide a copy of our code of ethics upon request.

Our employees and personnel may invest for their own accounts in securities which may also be recommended and made available. Our code of ethics requires client interests be placed before our employees' own interests. Personal trades that consist of mutual funds or exchange-traded funds will typically not have an impact on client trading or impact securities markets.

## **Brokerage Practices**

RIAs will oversee and direct the investments of your accounts subject to any limitations you may impose on RIA as Manager Accounts in writing.

As described above, your choice of a custodian for an RIA as Manager Account will direct us to use your custodian as broker for equity and mutual fund trades in your account. Not all investment advisers require directed brokerage. By doing so, we will not have authority to negotiate commissions among various brokers or to obtain volume discounts, and best execution may not be achieved. You may pay higher commissions and transaction cost, and receive less favorable net prices than other clients. We have an obligation to seek to obtain best execution for your transactions for which we retain investment discretion. To the extent you have imposed a limitation on brokerage selection by us or have directed us or the RIA to utilize a certain broker-dealer, we will not have authority to negotiate commissions among various brokers or to obtain volume discounts, and the lowest transaction cost may not be achieved. You may pay higher commissions or transaction costs and receive less favorable net prices than other clients. We may effect transactions for your account through broker-dealers that refer advisory business to us. The use of such broker-dealers to effect trades for your account may be deemed to create a conflict of interest since we have an incentive to increase referrals to our company. Agency cross transactions take place when we cause a security to be transferred from one account to another. Agency cross transactions are not permitted in Advisory Accounts.

We will allocate partially completed trades either in a pro-rata, a random fill or other method designed to treat you and all our clients fairly and equitably over time. We correct 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.

We do not direct client securities transactions to obtain research benefits or other benefits, otherwise known as "soft-dollars."

We may, but need not, aggregate or "bunch" orders for your account. Where we believe aggregation is appropriate and practicable or that it will result in a more favorable overall execution for you, we will allocate such bunched orders at the average price of the aggregated

order. You will still pay the same ticket charges on any bunched or aggregated orders. Aggregation does not benefit client trades in mutual funds or exchange-traded funds, and therefore we do not aggregate trades of these securities.

## **Review of Accounts**

An RIA is responsible for contacting you, and typically meeting with you at least annually to review the performance of your RIA as Manager Account and any changes to your financial situation and investment goals and objectives. In addition, an RIA typically reviews the quarterly performance report received from the custodian for your RIA as Manager Account. You should inform your RIA promptly of any changes to your information that you have previously provided, including your financial situation or investment objectives and policies. Kestra Institutional does not review RIA as Managed Accounts.

## **Client Referrals and Other Compensation**

We generally compensate third parties who solicit clients they believe would benefit from our investment advisory services. Any such arrangements with an unaffiliated third party will be pursuant to a solicitation agreement which complies with rule 206(4)-3 under the Advisers Act. This rule requires, among other things, that our Brochure be delivered, that a written agreement be executed in connection with a solicitation arrangement and that a compensation disclosure statement be delivered to the client at the time of solicitation.

We may enter into arrangements with other investment advisers pursuant to which such registered investment advisers will provide advisory services to RIAs or our clients. When such a referral is made, we will typically receive a portion of the total fee charged to you by the other registered investment adviser for so long as the other investment adviser provides you services. Any such arrangements will comply with the Advisers Act.

Individuals associated with RIAs may also be registered representatives of our affiliated broker-dealer Kestra Investment Services, LLC. (Kestra IS) and as such may receive, or may have already received, compensation in connection with products or services purchased in addition to any advisory fees you pay us. Similarly, RIAs may be independent insurance agencies/agents that sell insurance through our affiliated companies. As such, the RIAs and our affiliates may receive compensation in connection with your purchase of securities or insurance in addition to any advisory fees you pay. These relationships may be deemed to create a conflict of interest, as they could result in increased compensation to us, your RIA or our affiliates.

Our affiliate, Kestra IS, receives 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 by employees or agents of RIAs in their capacity as registered representatives of Kestra IS. Kestra IS receives 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 Kestra IS receives 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. Kestra IS receives 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. These relationships may be deemed to create a conflict of interest, as they could result in increased compensation for our affiliate.

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

The select provider payments listed below are as of the date of this filing and change from time to time:

#### **Mutual Funds & ETFs**

Select Providers of mutual funds pay Kestra IS or their affiliate either an amount of up to 0.105% off of AUM of products attributable to us or fixed fees of up to \$350,000 annually to support and participate in various conferences and seminars conducted by Kestra IS and our affiliates.

#### **Variable Annuities**

Select Providers of variable annuities pay Kestra IS or their affiliate an amount of up to 0.25% of the amount of their new sales of their products quarterly. Such providers may also pay Kestra IS or their affiliate fixed fees of up to \$50,000 annually to support and participate in various conferences and seminars conducted by Kestra and our affiliates.

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

Select providers of equity index annuities pay Kestra IS or their affiliate an amount of up to 1.0% based on gross new sales volume. Such providers may also pay Kestra IS or their affiliate fixed fees of up to \$50,000 annually to support and participate in various conferences and seminars conducted by Kestra and our affiliates.

#### **Retirement Products**

Select Providers of 401(k), group variable annuity and other retirement products pay fixed fees for the benefit of Kestra IS 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 Kestra IS or their affiliate an amount of up to 1.50% of new investments in such products. In addition, such providers pay Kestra IS or their affiliate fixed fees of up to \$45,000 annually to support and participate in conferences and seminars. Select Providers of alternative investment products also pay Kestra IS 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 related to such products and providers.

### **Variable Life Insurance**

Select Providers of variable life insurance products may pay Kestra IS or their affiliated insurance agencies wholesale overrides in an amount of up to approximately 45% 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 Kestra IS or their 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 their 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, their affiliate and their Advisors. Kestra IS may pay Advisors a higher percentage of compensation for sales of Select Provider variable life insurance products than for other such products we sell.

Additional information regarding the companies and amounts and types of compensation Kestra IS receives is available on our website at <https://www.kestrafinancial.com/disclosures/company-information>. If you do not have access to the website, you may contact your Advisor or our home offices for additional information. These relationships create a conflict of interest as they result in increased compensation to us, your Advisor or our affiliates.

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 by 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. Note that you will likely pay more in advisory fees versus up-front commissions over the typical holding period of these investments.

Illiquid alternative investments subject to fee billing in advisory accounts are required by Kestra Advisory Services 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.

Kestra IS sponsors a Free Ticket Program in which Kestra IS provides clients the opportunity to place trades for select mutual funds and ETFs at no cost to the Advisor or client. Kestra IS is able to provide the Free Ticket Program because certain fund families have agreed to pay and reimburse Kestra IS for trading costs associated with their funds. These Free Ticket Funds are exclusive to Kestra Advisors, and can be purchased and exchanged at NFS without trading fees to the 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 Kestra IS, your Advisor or our affiliates.

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.

In order to help cover or defray the costs of transitioning from another investment adviser to Kestra IS, our representatives generally receive various forms and amounts of transition assistance. Such transition assistance may include a promissory note loan, 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 material, attendance to conferences and events, and access to preferred pricing.

Kestra IS may issue payments in the form of loans to Advisors which may be forgivable based on years of service with Kestra IS or the extent of their production with Kestra IS. This practice creates a conflict of interest in that the Advisor has a financial incentive to recommend a client engage Kestra IS for brokerage services and to recommend additional products and services in order for the loan to be forgiven.

Kestra Institutional generally charges a non-refundable due diligence fee to third-party managers considered for inclusion in our investment platforms to RIAs. Paying such fees does not guarantee acceptance on any of our platforms or access to RIAs. Initial fees charged may be up to \$5,000, depending on the complexity of the manager and the resources required 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 and the nature of its services. We may waive these fees from time to time.

Kestra AS and Kestra PWS have entered into a custodial support services agreement with National Financial and Fidelity Brokerage Services, LLC in connection with our participation in their Fidelity Institutional Wealth Services (IWS) platform. They provide back-office, administrative, custodial support and clerical services in connection with your accounts on the IWS platform. For these services, they receive an amount up to 0.28 percent based upon our client assets on the IWS Platform.

If 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.

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 such

compensation may be up to 0.05 percent of the assets under management. In addition, we receive compensation from various third-party managers or service providers based upon a percentage of our client assets under their management. Such compensation may be up to 0.05 percent of the assets under management and is not shared with your Advisor. You are not charged a higher fee based upon these arrangements. 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.

When you establish an account on the NFS platform, you are required to select a bank sweep option or 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.

The bank sweep account will have a yield that will vary based on prevailing interest rates. Kestra IS has the ability to dictate what portion of the yield (interest rate paid) on the bank sweep accounts it will retain. Kestra IS's ability to adjust the yield creates a conflict of interest since the lower the portion of the yield paid to you, the more Kestra IS earns. Your Advisor does not receive any portion of the bank sweep compensation paid to Kestra IS.

In addition to a bank sweep deposit option, Kestra IS makes available two money market funds, the Fidelity Government Money Market Daily Money fund (FZBXX) and the Fidelity Treasury Money Market Daily Money fund (FDUXX), 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. Your Advisor does not receive any portion of the money market compensation paid to Kestra IS.

Kestra IS does not make available other share classes of the same funds, including those that do not pay 12b-1 fees, available as sweep money market options, 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.

Kestra IS is credited 50% of the interest assessed on margin accounts by NFS. This credit creates a conflict of interest since our affiliated broker-dealer receives additional compensation



beyond the advisory fees collected on accounts custodied at NFS, which provides an incentive to place business with that custodian.

Our Chief Compliance Officer is available to address any questions that a client or prospective client may have regarding its prospective engagement and the corresponding conflict of interest presented by such engagement.

## **Custody**

We 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 and our service providers may create for you.

## **Investment Discretion**

We typically do not have investment discretion on any assets of an RIA's client. However, if you access our Wrap Fee Programs, you are required to grant us and our service providers discretionary trading authority in order for the applicable third-party advisers to manage your account. Please see our Wrap Fee Brochure for more details.

## **Voting Client Securities**

We do not vote proxies for any clients or RIAs.

## **Financial Information**

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