

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

# **Kestra Advisory Services, LLC**

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**Dated: March 31, 2019**

**This brochure provides information about the qualifications and business practices of our firm, Kestra Advisory Services, LLC (Kestra AS). If you have any questions about the contents of this brochure, please contact us at 844-553-7872 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.

Since our last annual update, the following material changes have occurred:

1. Kestra Advisory Services, LLC (Kestra AS) credits back to your account an amount equal to the 12b-1 and service fees collected by our affiliate broker-dealer Kestra Investment Services, LLC (Kestra IS), in connection with your advisory assets, with the exception of the 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. 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. Please refer to the **Brokerage Practices** section of this brochure for additional information.
2. 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.

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# Advisory Business

## INTRODUCTION

As an investment adviser, we are subject to a fiduciary duty requiring that we act and provide investment advice in our clients' best interest. We also are required to provide full and fair disclosure of material facts associated with our services and investment advice. We must act to avoid conflicts of interest or disclose these conflicts to our clients. This brochure is designed to explain our services and how we provide investment advice and to disclose conflicts of interest associated with our services and advice.

We provide investment advice through investment adviser representatives registered with our firm. We refer to these financial advisors as "Advisors" in this brochure. Our primary methods of providing investment advisory services are: 1) Advisor managed accounts; 2) third-party recommendations; 3) financial planning; 4) wrap-fee programs; 5) individual retirement planning services; and 6) qualified and non-qualified retirement plan services. We describe these services in more detail below. If you are a retirement plan client, please refer to our Retirement Plan Brochure.

Generally, prior to opening an advisory account with us, your Advisor will meet with you to understand your investment experience, investment objectives, risk tolerance and current financial circumstances in order to create an investment profile for you. This investment profile helps your Advisor determine appropriate investment products and services for you. Should you engage our firm, you will enter into an agreement with us setting forth terms and conditions of the advisory services relationship, including fees to be charged and authorization for the Advisor to purchase and sell securities on your behalf consistent with your defined investment objectives. Generally, your Advisor will recommend, purchase, or sell mutual funds, variable insurance products and investments in their sub-accounts, exchange-traded funds, equities (stocks) and fixed income securities (bonds). Your Advisor may also recommend various alternative investments, typically designed to diversify your portfolio, and a portion of your account may also remain in cash, a cash product, or a money market fund.

Our firm supports independent Advisors, and while we oversee their advice and asset management, subject to our fiduciary duty and rules of suitability, we do not dictate the products, platforms, or services your Advisor recommends to you within the scope of available options we make available to your Advisor. We offer a variety of investment advisory platforms, custodians, and brokers, including our own affiliated broker-dealer. Most of our Advisors are also registered representatives of our affiliate broker-dealer, Kestra Investment Services, LLC (Kestra IS). Please refer to the **Brokerage Practices** section for additional information regarding our broker-dealer affiliate.

In addition, many of our Advisors also act as insurance agents independent from our firm. To the extent your Advisor provides fixed insurance products or services to you (other than fixed indexed annuities), he or she does so outside of our firm and supervision.

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.

## **ADVISOR MANAGED ACCOUNTS**

With an Advisor Managed Account, your Advisor will be responsible for managing your account consistent with your defined objectives and risk tolerance and may assist you to develop a personalized asset allocation program and custom-tailored portfolio. The recommended portfolio will typically include investments such as mutual funds, exchange-traded funds, variable annuities, stocks, bonds, direct participation programs or a combination of these products. A portion of your account may also remain in cash or a money market fund.

In an Advisor Managed Account, your Advisor typically will diversify your holdings across various asset classes unless your objective is to invest in specific assets. The percentage weightings within the asset classes will be based on your risk profile, investment objectives, individual preferences and availability. You will have the opportunity to meet with your Advisor to periodically review the assets in your Advisor Managed Account. We recommend you and your Advisor meet on a regular basis to review your financial situation, investment objectives and current holdings, and you should let your Advisor know about any changes to your circumstances in the meantime.

You will maintain full and complete ownership of all assets held in your Advisor Managed Account. This means you retain the right to add or withdraw securities or cash, pledge securities, and vote securities. We will not pool your Advisor Managed Account assets with assets in other accounts. You will receive periodic statements from the account custodian.

We offer both discretionary and non-discretionary portfolio management services. If you want your Advisor to have discretion over the timing and amount of securities purchased or sold in your account, you will be asked to sign an addendum authorizing your Advisor to place orders for your account without contacting you in advance.

We place most transactions in Advisor Managed Accounts through our affiliated broker-dealer, Kestra IS, and its unaffiliated clearing broker-dealer and custodian, National Financial Services, LLC (NFS), but also use other broker-dealers and custodians. Please refer to the **Brokerage Practices** section for additional information.

## **ADVISORY PLATFORMS**

Through our relationships with NFS and other custodial and clearing firms, we make available platforms (Advisory Platforms) to assist our Advisors to provide you an Advisor Managed Account. Examples of our Advisory Platforms include the AdvisorEnterprise<sup>SM</sup> Platform, Horizon, and AdvisorChoice Platform described in more detail below. Through these Advisory Platforms, our Advisors provide investment advice to you combined with portfolio administration and reporting services, advisory fee processing, and account reconciliation.

### **AdvisorEnterprise Platform**

Our relationship with Envestnet Asset Management, Inc. (Envestnet), an unaffiliated company, allows our Advisors to provide you an Advisor Managed Account by using tools, resources and technology provided by Envestnet as part of the AdvisorEnterprise platform. Such tools,

resources and technology include the ability to produce detailed proposals, creating investment models, allocating assets, monitoring your specifications on an account, aggregating trades and rebalancing an account. Through an AdvisorEnterprise Advisor Managed Account, your Advisor generally invests your assets in individual equity or fixed income securities, as well as pooled investment vehicles such as mutual funds or hedge funds available through the AdvisorEnterprise platform. The AdvisorEnterprise Platform has a minimum investment amount required to establish a new account. The minimum is \$25,000 for a single account, or \$10,000 where the combined managed asset value for the household is equal to or greater than \$25,000. We may waive the account minimum at our discretion for related accounts. There is a minimum annual platform fee that will vary by program on AdvisorEnterprise. If the platform fee does not calculate to at least the specified minimums of \$60 for Advisor Managed accounts, \$55 for third party strategist accounts, and \$75 for Separately Managed accounts, the platform difference will be assessed to meet the minimum annual account.

### **Horizon and AdvisorChoice Platform**

Both the Horizon and AdvisorChoice Platforms are Advisor as portfolio manager platforms. The Horizon Platform is provided through NFS. The AdvisorChoice Platform is provided through NFS and other custodians such as Charles Schwab & Co. (Schwab) and TD Ameritrade (TDA). Through these platforms, our Advisors recommend and invest in individual equity or fixed income securities as well as pooled investment vehicles such as mutual funds. The Horizon and AdvisorChoice Platforms have a new account minimum 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. We may waive the account minimum at our discretion for related accounts.

### **THIRD PARTY PROVIDER ADVISORY PLATFORMS**

Our Advisors can delegate investment advisory responsibilities or discretionary authority to a third party investment adviser through external advisory platforms that are offered at Kestra. Typically, you will enter into an agreement directly with that third party, which will outline, among other things, the fees and trading of your account by that investment adviser. Depending on the Advisory Program, you either pay us directly or pay one fee to the third party investment adviser, who will then remit a portion of the fee to us. You will receive a copy of both the third-party investment adviser's brochure as well as this document if we and the third party are acting as co-investment advisers. If investment advisory services are delegated to a third party investment adviser, your Advisor will monitor your assets and will provide services such as, but not limited to, helping you choose the third party investment adviser, reviewing your accounts, and assisting you with administrative functions related to your portfolio.

Our Advisor will conduct periodic reviews of your account(s) in the Advisory Program, monitor performance of the account, and be available to meet with you upon reasonable request. You and your Advisor should meet on a regular basis to review your financial situation, investment objectives and current holdings, and you should let your Advisor know about any changes to your financial goals or circumstances.

We make available certain Advisory Platforms offered through third-party co-advisors to assist our Advisors in providing you additional options for a Managed Account. Examples of Advisory Platforms offered at KAS include, but are not limited to the following: Loring Ward, Symmetry Partners, Brinker Capital, City National Rochdale, CLS, Morningstar, SEI and AssetMark.

SEI and AssetMark are described below.

## **SEI**

We have entered into a co-advisory relationship with SEI Investments Management Corporation (SEI). In conjunction with SEI, we provide portfolio management services, selection of other investment advisers, mutual fund wrap services, access to separate account managers and alternative investments. SEI is both an investment adviser and broker-dealer. From the services and products SEI provides, our Advisor can customize the asset allocation and level of diversification, and determine the preferred investment vehicle or structure to create your account portfolio. There generally is no minimum investment for an account in the SEI Program.

Prior to opening an account with SEI, your Advisor will gather information through the use of SEI-developed questionnaires, software and other materials or through a personal interview. Your Advisor will also assist you in completing all necessary paperwork, including an agreement between you and SEI that grants SEI discretionary trading authority in your account. SEI has created asset allocation programs using mutual funds invested in stocks, bonds and cash to meet varying client objectives and needs for growth, income and capital preservation. Our Advisors will rely on the model investment portfolio designations and allocation recommendations provided by SEI. You may impose conditions in your investment guidelines or in written instructions to us that limit the discretionary authority implemented through the rebalancing program. In a select few instances, certain Advisors qualify for SEI's Enhanced Advisory Services. In these instances, your account will be managed as generally described under the **Advisor Managed Account** section above.

SEI Private Trust Company, an affiliate of SEI, acts as a custodian of all assets in the SEI Program and you will enter into a separate custodial agreement with the SEI Private Trust Company. SEI will execute transactions for your account pursuant to your agreement with them. Your Advisor will conduct periodic reviews of your account in the SEI Program and monitor the performance of the account.

## **AssetMark**

We have entered into a co-advisory relationship with AssetMark, Inc. (AssetMark). AssetMark is a registered investment adviser with the Securities and Exchange Commission (SEC), and provides consulting services and AssetMark Platform access to your Advisor.

AssetMark makes a number of different Solution Types available to Clients through the Platform. Account minimums range from \$10,000 to \$1,000,000. We or AssetMark may waive the account minimum at our discretion. The Solution Types consist of:

1. Guided Portfolios
2. Single Strategy Solutions
3. Privately Managed Accounts or Separately Managed Accounts
4. Savos Unified Managed Accounts
5. Multiple Strategy Accounts
6. Guided Income Solutions

Your investments made through the Platform are held in your name by a Custodian you select, pursuant to a custody agreement directly between the you and the Custodian. Your account will

be held in custody at one of the following firms: Schwab Institutional, Pershing Advisor Solutions, TD Ameritrade, AssetMark Trust or Fidelity Brokerage Services.

AssetMark makes available periodic reports to your Advisor for use you should your Advisor opt to do so. Your Advisor will conduct periodic reviews of your accounts on the AssetMark Program and monitor performance of those accounts.

We also have the ability to act in a solicitor capacity and refer clients to AssetMark. Please see the **THIRD-PARTY REFERRALS** section below for more details regarding the services we provide and how we are compensated in such an arrangement.

## **LEGACY OFFERINGS**

We may enter, or previously have entered, into advisory relationships, programs and platforms offered through third-party investment advisers either as legacy offerings for our firm or as an accommodation to an Advisor who joins our company. These relationships are usually limited to certain Advisors and their existing clients. Details and descriptions of these programs have been or will be given to you by us, your Advisor and/or the Advisor's prior firm.

## **THIRD-PARTY REFERRALS**

We have entered into agreements with various third-party investment advisers that participate in, manage, or sponsor different types of money management services and investment advisory programs. Depending on our relationship with the third party, our Advisors may solicit clients for such third parties, in which case we will not provide investment advice or have discretionary authority over your assets. These solicitation arrangements are structured in accordance with the cash solicitation rule 206(4)-3 under the Investment Advisers Act of 1940 ("Advisers Act") which requires, among other things, that we disclose to you the compensation we will receive for referring you to a third-party adviser.

Where we act solely as a solicitor, you will not enter into an agreement directly with us and we are not responsible for the services provided by the third-party investment adviser. In such an arrangement, you establish a direct relationship with the third-party investment adviser, and we will receive a solicitation fee from the adviser based on a percentage of the advisory fee they charge you. The amount of the fee varies by the solicitation arrangement with a maximum fee of 2.5%. The solicitor disclosure you receive when you establish an account with the third party adviser will specify the total fee you will be charged, and what portion of that fee is payable to Kestra AS. You should read the third-party adviser's brochure and any compensation disclosure statements provided in connection with these solicitation arrangements for information regarding the services of the third-party adviser and applicable fees and charges.

## **FINANCIAL PLANNING & FINANCIAL CONSULTING**

Many of our Advisors perform financial planning, business consulting, estate planning, and similar securities investment consulting services for you. In performing financial planning or consulting services, the Advisor typically reviews your overall financial circumstances, such as your tax status, insurance needs, overall debt, business ventures, retirement savings and current investments. An Advisor's services may also focus on only one or several of these areas, depending on your specific engagement. You will enter into an agreement with us setting forth the services our Advisor will provide and other terms and conditions of the relationship,



such as fees for our services. You are under no obligation to accept any of the recommendations from an Advisor pursuant to a financial planning or consulting engagement, and you retain discretion and responsibility for implementing the recommendations in the absence of a contract for such additional services.

## **WRAP FEE PROGRAMS**

### **AdvisorEnterprise**

Through our relationship with Envestnet, we sponsor a privately labeled wrap fee program. The fees you pay in this program cover costs related to security transactions as well as fees payable to us, our Advisor, the custodian, and any third party as applicable. Please see our Wrap Fee Program Brochure for details and a corresponding fee schedule regarding this wrap-fee program.

## **INDIVIDUAL RETIREMENT PLANNING SERVICES**

Our Advisors also provide services in connection with clients' retirement accounts, such as individual retirement accounts (IRAs). Our services to IRA clients include those described above.

If you are participating in an employer sponsored retirement plan (such as 401(k) plan) and are no longer with that employer, you typically have 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 a 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 on your age, result in adverse tax consequences). To the extent you are a retirement plan client, please refer to our Retirement Plan Brochure.

Our Advisors may recommend that you roll over plan assets to an IRA under our management. As a result, we generally earn an asset-based fee. If you leave plan assets with your old employer's plan, or roll the assets to a plan sponsored by a new employer, we cannot manage the assets and will earn no compensation unless we are engaged to monitor or consult on your assets in the retirement plan. We have a financial incentive to encourage you to roll plan assets into an IRA that we will manage.

There are various factors you should consider before rolling over assets from a retirement plan to an IRA. These factors include: 1) the investment options available in the plan versus the investment options available in an IRA; 2) fees and expenses in the plan versus the fees and expenses in an IRA; 3) the services and responsiveness of the plan's investment professionals versus ours; 4) strategies for the protection of assets from creditors and legal judgments; 5) required minimum distributions and age considerations; and 6) employer stock tax consequences, if any. No client is under any obligation to roll over plan assets to an IRA managed by us or to engage our Advisors to monitor and/or consult on an account maintained in an existing retirement plan. 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.

## **QUALIFIED AND NON-QUALIFIED RETIREMENT PLAN SERVICES**

Please see our retirement plan brochure for more information on retirement plan services.

## **OTHER INFORMATION ABOUT OUR ADVISORY SERVICES**

In some instances, we and our Advisors may independently consider a security a client is trying to sell appropriate for another one of our clients. We and our Advisors advise numerous clients with similar or identical investment objectives or advise clients with different objectives that may trade in the same securities. Despite such similarities, portfolio recommendations relating to your investments and the performance resulting from such recommendations will differ from client to client. We will not necessarily recommend, purchase, or sell the same securities at the same time or in the same amounts for all eligible clients. In some cases, such as the recommendations of private placements or oversubscribed public offerings, due to the availability of, or qualifications necessary to buy the investment, it may not be possible or feasible for you to buy a certain security. Therefore, you will not necessarily be able to participate in the same investment opportunities or participate on the same basis with our other clients. To the extent our Advisors have investment discretion over your account, it is our policy that the Advisor allocate, to the extent practicable, investment opportunities on a basis that the Advisor in good faith believes is fair and equitable to each client over time.

**You should promptly notify us if there is a change in your financial circumstances or investment objectives so we may confirm any prior recommendations remain appropriate going forward, or advise you as to any proposed changes.**

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**

### **GENERAL INFORMATION ON OUR FEES**

Our asset-based fees range up to 2.5 percent of assets under management and are determined by your Advisor based upon a variety of factors, such as the value of your assets under management, your account registration type (e.g., retirement), the nature of services we provide to you, the platform(s) and the program(s) you or your Advisor choose and the current market and pricing for similar services. You may pay a higher or lower fee than other clients pay for similar services.

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 amount set forth above. We may waive or charge a lesser fee or may charge a flat fee for our services. The advisory fees we charge may be higher or lower than those charged by other investment 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 or our affiliated broker-dealer to buy or sell securities on a commission basis in a non-managed account.

We pay our Advisors a percentage of the fees and commissions we or our affiliate broker-dealer charge or receive. Our Advisors receive a higher percentage of the amounts we receive as their production of fees and commission increases. This creates a conflict of interest as your Advisor is incentivized to increase their production to obtain higher compensation percentages and additional compensation.

When an Advisor terminates their relationship with us, we will notify you and will resign as fiduciary for all advisor as portfolio manager accounts. This action will make your account a commissionable account and you will be charged standard fees and commissions for transactions and other services. The fees billed to your account for advisory services will stop once the account has been converted. In the event your account has been billed in advance, and your advisory agreement is terminated prior to the end of the term for which fees have been collected, we will return any unearned fees to you. Where your assets are invested with Third Party Strategists, Third Party Asset Management Platforms, or Separately Managed Accounts, your account will continue to be managed and billed advisory fees. We will retain those billed fees previously allocated to your Advisor. An overview of the fee breakdown for managed accounts is provided below.

#### **Representative as Manager on AdvisorEnterprise\***

Platform Fee: Ranges from 0.18% - 0.02% with a minimum annual platform fee of \$60  
Maximum Client Fee: 2.5%

*\*Ticket charges apply, however discounts are available if your Advisor has \$25MM in total assets on the platform and has requested the discount.*

#### **Representative as Manager on Horizon or Advisor Choice\***

Platform Fee: \$0  
Maximum Client Fee: 2.5%

*\*Ticket charges apply*

#### **Third Party Strategists on AdvisorEnterprise**

Third Party Strategist fees on AdvisorEnterprise vary by strategist and style:

Strategist fee by style:  
Strategic: 0.55% - 0.02%  
Dynamic: 0.67% - 0.34%  
Tactical: 1.15% - 0.35%

Maximum Client Fee: 2.5%

#### **Separately Managed Accounts (SMA) on AdvisorEnterprise**

SMA fees on Advisor Enterprise vary by strategist and style:

##### **SMA - Equities**

Platform Fee: 1.05% - .70%  
Maximum Client Fee: 2.5%

#### SMA – Fixed Income

Platform Fee: 0.75% - 0.48%

Maximum Client Fee: 2.5%

*\*custom SMA arrangements will typically fall out of the above quoted range*

#### **Unified Managed Account (UMA) on AdvisorEnterprise\***

UMAs are accounts that combine traditional SMAs, third party strategists, equities, mutual funds and ETFs into a single diversified portfolio. Your assets are directly invested within each asset class by an overlay manager that is typically responsible for initially allocating assets within each asset class and monitoring and rebalancing among the asset classes. UMAs typically have a minimum annual account size requirement of \$150,000. The fees for management of your UMA are generally within the ranges set forth below. Except where otherwise designated, the AdvisorEnterprise Program Fee includes fees for Kestra AS and its affiliates, Envestnet, custody and trading services and services of the applicable third party managing your account.

Platform Fee: 1.05% - 0.91%

Maximum Client Fee: 2.5%

#### **ADVISORY PROGRAM FEES**

##### **SEI**

Maximum Client Fee: 2.5%

##### **SEI Managed Account Solutions:**

- Category 1 – range from 65-90 bps
  - All Cap Core, Alternative-Multi-Strategy SMA, Equity Income, Global Equity, International Developed Markets, Large Cap, Managed Volatility, Mid Cap, Socially Responsible Investing, Windham ETF Strategies
- Category 2 – range from 85-110 bps
  - Small Cap, Small-Mid Cap, REIT
- Category 3 – range from 100-125 bps
  - International Emerging Markets
- Category 4 – range from 45-65 bps
  - Alternative-Income, Alternative-Tax Advantage Income, Alternative-MLP, Core Aggregate, Core Aggregate Plus, Government/Corporate Bond, Government Securities, Municipal Fixed Income, Preferred Securities
- Category 5 – range from 20-45 bps
  - SEI ETF Strategies

- Category 6 – range from 18 to 30 bps
  - SEI Fixed Income Strategies
- Category 7 – range from 20-55 bps
  - SEI Factor Based Strategies

SEI EAS Program:

0.20%; the platform fee is subject to a \$1,000 per year, per account, maximum

Small Account Fees: \$60 annual fee, charged quarterly in arrears, for accounts under \$50,000

**AssetMark**

AssetMark offers the following advisory services or solution types to clients:

- Guided portfolios range from 0bps - 65bps
- Single strategy solution types range from 0bps to 65bps
- Privately managed accounts or Separately Managed Accounts range from 60bps to 105 bps
- Savos unified managed accounts range from 30bps to 100bps
- Multiple Strategy Accounts range from 0 to 55bps
- Guided Income solutions – no fee

Maximum Client Fee: 2.5%

In addition to the platform fee, there are some manager models that are assessed an administrative reallowance fee. The administrative reallowance fee is charged to client accounts and reflects 0.05%. The following strategists are excluded from this fee calculation: City National Rochdale, Aris, Clark Capital, and Savos

**FEES FOR ADVISOR MANAGED ACCOUNTS**

Your Advisor Managed Account is assessed any and all transaction charges related to activity in your account. We will charge transaction charges in accordance with our current transaction fee schedule, which we will provide upon request. Transaction charges are customizable and negotiable. We reserve the right to waive or raise these fees at any time. We typically do not charge you any commissions for transactions in mutual funds, however there is typically a transaction charge assessed. Please see the **Brokerage Practices** section for more information. Your Advisor may opt to absorb the transaction charges associated with your account, which creates a conflict of interest as it lowers the overall compensation your Advisor receives, and may incentivize less frequent trading to minimize overall trading costs. Certain mutual funds pay our affiliated broker-dealer various service fees or 12b-1 distribution fees, and we credit an amount equal to those fees back to you, except for 12b-1 fees our affiliated broker-dealer receives in connection with sweep money market mutual funds, which our broker-dealer retains.

## **FEES FOR ADVISORY PLATFORMS**

### **AdvisorEnterprise Platform**

Our annual advisory fee for AdvisorEnterprise Advisor Managed Accounts ranges up to 2.5 percent of assets under management, and is based upon a variety of factors, such as, but not limited to, account size, account type (e.g., retirement) and types of investments in your account. All fees are negotiable, subject to the maximum amount set forth above. Regardless of what our Advisor charges you as an advisory fee, your Advisor Enterprise Advisor Managed Account is still subject to a minimum platform fee. Asset-based fees are typically assessed quarterly in advance based upon the fair market value of your assets on the last business day of the preceding quarter. We may waive or charge clients a lesser fee. Your AdvisorEnterprise Advisor Managed Account will also be assessed transaction charges related to activity in the account.

Your Advisor receives compensation as a result of your participation in the AdvisorEnterprise platform. The amount of this compensation is generally more than what your Advisor would receive if you participated in 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 your Advisor has \$25 million or more in assets under management on the Advisor Enterprise 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 AE platform.

Through our Third Party Strategist Program offering with Envestnet, Kestra collects a platform fee which reflects 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. The platform fee may be up to 0.33 percent of our clients' assets under management with these third-party managers. A component of this fee is used to offset account trading costs, calculate performance reporting for the account, and general maintenance of the technology that supports this program on the advisory platform. The advisory platform and strategist program, can create a conflict of interest for Kestra in that a component of the platform fee is retained by the firm. Our Advisors do not retain any portion of the platform fee.

### **Horizon or AdvisorChoice Platform**

Our annual advisory fee for Horizon or AdvisorChoice Managed Accounts ranges up to 2.5 percent of assets under management. Regardless of what our Advisor charges you as an advisory fee, your Horizon or AdvisorChoice Managed Account will still be subject to a minimum platform fee of 0.05 percent, which we charge your Advisor, however we may, at our discretion,

waive or discount this charge. Your advisor is incentivized to increase the cost of the advisory services you are charged to offset the fee. Your advisor is also incentivized to place your account on the AdvisorEnterprise Platform to avoid incurring the fee. Asset-based fees for a Horizon or AdvisorChoice Managed Account are typically assessed quarterly in advance based upon the average daily balance of your assets over the preceding quarter. Your Horizon or AdvisorChoice Managed Account will also be assessed transaction charges, which your Advisor may opt, at their discretion, to absorb. If your Advisor absorbs your trading costs, your Advisor is incentivized to place fewer trades on your account than may otherwise be placed if trade costs were nonexistent. Your Advisor receives compensation as a result of your participation in the platform. The amount of this compensation will be more than what your Advisor would receive if you participated in our other programs or separately paid for investment advice, brokerage and other services. Your Advisor therefore has a financial incentive to recommend this platform over other programs or services we offer.

## **FEES FOR THIRD PARTY ADVISORY PROGRAMS**

### **SEI**

You will pay an annual fee for the SEI Program, which ranges up to 2.5 percent of assets under management. Your Advisor can negotiate the fee with you and SEI based upon a variety of factors, such as account size, account type (e.g., retirement) and types of investments within your account. The SEI Trust Company is responsible for providing you with statements, at least quarterly, showing all the assets and activity in your Advisor Managed Account with the SEI Program. These statements include any fees or charges assessed in the quarter. SEI Trust Company deducts fees from your account in accordance with your agreement with SEI and requirements of applicable law.

### **AssetMark**

You will pay fees in connection with an Advisor Managed Account with the AssetMark Program based upon the solution you and your Advisor choose as referenced below. The fees applicable to each Account on the Platform include:

1. Financial Advisor Fee (this is negotiated with your advisor and will not exceed 2.5%)
2. Platform Fee, which includes any Strategist or Manager Fee, as applicable, and most custody fees.
3. Initial Consulting Fees (this is negotiated with your Advisor at the outset of your engagement);

Other fees for special services are also charged. The Fees applicable to the Account will be set forth in the Client Billing Authorization. You should consider all applicable fees prior to engaging your Advisor for such services.

<u>Solution</u>	<u>Minimum</u>	<u>Maximum</u>
Guided portfolios	0.00%	2.50%
Single strategy solution	0.00%	2.50%
Privately managed accounts	0.60%	2.50%
Savos unified managed	0.30%	2.50%
Multiple Strategy Accounts	0.00%	2.50%
Guided Income solutions	0.00%	2.50%

The applicable custodian will deduct fees from your account in accordance with your agreement with AssetMark, your custodial agreement and applicable law.

With respect to the AssetMark Program, some of our Advisors are entitled to receive a reimbursement from AssetMark for qualified marketing and/or business development expenses based on the total assets invested in the AssetMark program. Kestra AS limits the reimbursement to \$5,000 per Advisor per vendor regardless of whether the advisor qualifies for additional reimbursement funds above that amount. This additional financial benefit is not shared with you and creates a conflict of interest due to the incentive it creates for your Advisor to utilize the AssetMark Program.

## **FEES FOR FINANCIAL PLANNING AND FINANCIAL CONSULTING**

Our Advisors charge fees for financial planning and financial consulting on an hourly basis, a percentage of assets, or a negotiated flat fee basis. These fees will vary based on the services provided and are negotiable. A flat fee charge may result in a total fee that is, on a percentage basis, greater than our typical maximum asset-based fee of 2.5 percent.

You may purchase any recommended security or investment product from a broker-dealer that is not affiliated with us or our Advisor. Should you choose to utilize your Advisor to implement the recommendations in your financial plan, your Advisor may act as an asset manager for your portfolio and receive advisory fees, or may act as a broker and purchase securities for you on a commission basis, or some combination of the two. In that event, our affiliated broker-dealer, Kestra IS, will receive compensation from the sale of a security or investment products recommended to you and purchased through Kestra IS. Please refer to the **Brokerage Practices** section for additional information.

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

You may pay advisory fees to us by check, wire, or by authorizing the deduction of fees from your or another authorized account. If you authorize us to deduct fees from your account, you are responsible for fees, charges and other costs associated with the fee deduction, as well any tax impact associated with the deduction. When fees are deducted from accounts, the Advisor or account custodian will send you information reflecting the amount of fees deducted. 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.

Our Advisors offer a wide variety of securities products and services since we are affiliated with a broker-dealer and insurance agency. Advisors are free to choose the products and services they make available to clients subject to applicable rules of suitability, appropriate licensing, and our policies and procedures. Some Advisors may not consider or be able to offer all of the products and services available through our company or our affiliates. 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 do not sell fixed or general account life insurance products or annuities other than certain fixed indexed annuities and broker dealer offered fixed annuities available through our affiliated broker-dealer. 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 affiliated broker-dealer, our Advisors 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, variable insurance products, real estate investment trusts (known as REITs), partnerships that invest in securities, or hedge funds. 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 will 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 advisory account with us, you will pay ongoing fees and expenses to the mutual fund company in addition to the fees we charge. In addition, if you purchased an investment on a commission basis, your Advisor may, after a period of time, assess an advisory fee as well. Because advisory accounts are subject to ongoing advisory fees, the cost of owning an illiquid asset in an advisory account will be higher than if the asset were purchased on a commission basis (either directly from the product sponsor or through a retail brokerage account) and held in a non-advisory account. Please discuss with your advisor the options available to purchase and hold these or other products.

Subject to the capabilities of the account custodian, you may direct certain investments to be held within your account that are not to be included in the management of your portfolio. If you identify such assets in advance, we will not manage those assets or include them for purposes of calculating your advisory fee; however, you still may be subject to applicable platform or program fees on such assets. In addition, we may choose not to manage or charge advisory fees on assets held in an advisory account that we determine are not suitable for management by Kestra AS based on the nature or liquidity of the asset.

If you choose to authorize Kestra AS to use margin in your account, our fees could increase as the market value of your investment portfolio increases. Our offer to provide margin as a strategy creates a conflict of interest since we stand to receive increased advisory fees and our affiliate will receive margin revenue should you choose to employ a margin loan.

We make available third parties for our Advisors to utilize in providing you the services described in this document, and such third parties may compensate us for training, marketing efforts, staffing and ongoing education of Advisors related to such third parties. This financial and non-financial support incentivizes us and your Advisor to utilize the services of these third parties, which is a conflict of interest. Please refer to the **Client Referrals and Other Compensation** section below.

Some of our Advisors participate in incentive trips and receive other forms of non-cash compensation based on the amount of their sales and services through Kestra IS and Kestra AS, non-affiliated marketing groups, or product manufacturers. To the extent your Advisor

participates in an incentive trip or receives other forms of non-cash compensation, a conflict of interest exists in connection with the Advisor's recommendation of products and services for which they receive these additional economic benefits. Kestra IS allows representatives to receive marketing reimbursements from product providers to help defray these expenses. There is no requirement or expectation that representatives refer clients to or place assets with such providers. Please contact our Chief Compliance Officer for additional information.

To the extent an Advisor has waived any commission from the sale of a security or investment product, a third party may still provide additional compensation to us. This third-party compensation creates a conflict of interest since it would result in increased compensation for us or our affiliates.

We or our affiliates utilize third parties to fulfill services we provide or make available to you such as printing, mailing, planning software, and trading. Through enterprise level pricing or mark-ups, we often charge you more than our actual cost for such services. To the extent our costs are passed on to our Advisors, our Advisors may factor these costs into the advisory fees you are charged.

## **Performance-based Fees and Compensation**

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

## **Types of Clients**

Our clients include individuals, banking or thrift institutions, pension and profit-sharing plans, charitable organizations, insurance companies, and corporations and other business organizations. Certain Advisory Platforms and Advisory Programs have minimum account sizes as described above in the **ADVISORY BUSINESS** section. We also provide investment advice and services to retirement plans, which we describe in our Retirement Plan Client Brochure.

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

We analyze investment programs and products 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.

Advisors at times perform their own research on securities and programs through third-party resources available to the public, and employ various forms of analysis such as charting, fundamental analysis, technical analysis and cyclical analysis. Sources of information we and our Advisors use include financial newspapers and magazines, inspections of corporate activities, research materials prepared by others, corporate rating services, timing services, annual reports, prospectuses, filings with the Securities and Exchange Commission and company press releases. Performance reports vary and may use a Modified Dietz, Money Weighted Rate of Return, Time Weighted Rate of Return, or Internal Rate of Return for performance calculations.

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. Other strategies an Advisor may use include long-term buy and hold, short-term purchases, trading, short sales, margin transactions and option writing (including covered options, uncovered options or spreading strategies).

A margin transaction occurs when you borrow against your invested assets to make additional investments. The securities used as collateral on the margin loan are subject to sale if the loan becomes past due. Because of the effect of the leverage of borrowing, gains or losses from the security you purchased on margin can be magnified.

Any investment or investment strategy involves risk of loss you should be prepared to bear. Examples of risks 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.
- *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 conditions.
- *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.

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 AS 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. In accordance with the procedures described below under **Brokerage Practices**, Kestra AS periodically directs client trades to SumRidge. Notwithstanding the above, Kestra AS's management believes that none of the indirect relationships that Kestra AS 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 AS or cause a conflict of interest with Kestra AS'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). Some of our Advisors own equity in Kestra FH 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 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.

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**

You will enter into separate custodial/clearing agreements with the applicable custodian for your account. We typically place trades for our clients through Kestra IS, which in turn introduces accounts and transactions to its clearing firm and custodian, NFS. However, we sometimes designate Pershing, Fidelity Institutional Wealth Services (IWS), Schwab, TD Ameritrade or other alternative clearing and custody companies. Your funds and securities are held with those custodial firms, and not by us or your Advisor. We may also, at our discretion, accommodate your request to use an alternative custodian.

Although we may utilize other broker-dealers and account custodians to service your advisory account, as noted above we generally use our affiliated broker-dealer, Kestra IS, which introduces accounts to our clearing firm, NFS. By using our affiliated broker-dealer, we are able to provide a uniform technology platform to our Advisors for the management of client accounts and provide clients a uniform clearing and custodial platform applicable to both advisory and non-advisory brokerage accounts. The use of our affiliated broker-dealer and NFS creates a conflict of interest because Kestra IS will earn brokerage commissions, mark-ups, transaction fees and other amounts in connection with your advisory account and NFS pays Kestra IS various amounts in connection with assets on their platform. We also receive execution price

discounts from NFS. Accordingly, we have a financial incentive to recommend and use Kestra IS and NFS for brokerage and custodial services.

Through our custodial agreement with NFS, we or our affiliated broker-dealer receive additional fees for your assets that are held in their custody, and those fees increase as the amount of your assets in the custody of NFS increases. This presents 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 as a revenue source which, in part, is used 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. 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. 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.

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.

When you establish an account with Kestra IS 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. Our Advisors do 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. 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 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.

## **Review of Accounts**

Our Advisors will typically meet with you at least annually, to review the performance of your account, any changes to your financial situation, and investment goals and objectives. We also require you, in our standard client agreement, to inform your Advisor promptly of any changes to your information or circumstances, including changes to your financial condition or investment objectives. 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 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. 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

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 ETF**

Select Providers of mutual funds and ETF pay us or our affiliate either an amount of up to 0.105% on AUM for products attributable to us or fixed fees of up to \$350,000 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 0.15% 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.

We sponsor 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 us 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 us, your Advisor, or our affiliates.

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 IS 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 your Advisor Managed Accounts. Absolute trading discretion means placing a trade in your account without your prior approval. However, we may rebalance or reallocate your Advisor Managed Account in order to re-establish the targeted percentages of your initial asset allocation. This rebalancing or reallocation will occur on an intermittent or periodic basis, upon your request, in response to a market event or on a specific date, like after a quarter-end review. You will be responsible for any and all taxes resulting from rebalancing or reallocation of your account.

In addition, 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, nor do our Advisors, vote proxies for 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 (5) 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.