

## **Brochure**

(Appendix 1 to Part 2A for Form ADV)

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

# **Kestra Institutional Services, LLC.**

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**Dated: October 11, 2021**

**This brochure provides information about the qualifications and business practices of our firm, Kestra Institutional Services, LLC. If you have any questions about the contents of this brochure, please contact us at 844-553-7872 or your financial Advisor.**

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

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

## Material Changes

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

The last update to the Kestra Institutional Services, LLC Form ADV Part 2A was filed on March 31, 2021. The following summarizes the material changes made since that filing:

- In the fourth quarter of 2021, the firm will introduce an Advisor as Portfolio Manager Wrap Program (APM-Wrap) as part of the AdvisorEnterprise platform. The APM-Wrap program is available to Kestra affiliated RIAs. The APM-Wrap program allows RIAs to charge one consolidated fee for investment advisory services and transaction fees rather than separately charging advisory and transaction fees. The wrap fee will be assessed as a percentage of the value of your account. Because the wrap fee does not change in relation to transaction volume, you will generally derive greater benefits from a wrap program when your account is actively traded and the transactions would otherwise be subject to a transaction fee. Where your account is not actively traded, or no transaction fee is assessed for the trades, a non-wrap program would be more appropriate. Depending on the advisory fee charged by your Advisor, the size of the account, the number of trades placed in your account and the transaction costs associated with those trades, the APM-Tickets program may cost more or less than the APM-Wrap program. When your Advisor chooses to pay your transaction charges or where the trades have no associated transaction charges, the APM-Tickets program is the lowest cost program, providing your Advisor does not adjust their advisory fee to account for their additional expense.

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## **Item 4: Services, Fees and Compensation**

This brochure describes the investment advisory services we provide through our wrap fee programs. Other advisory services offered by Kestra Institutional Services, LLC are described in our firm ADV Part 2A brochure which contains the information required by Part 2A of Form ADV.

We provide investment advice to other third-party registered investment advisers (RIAs) by making available a variety of services for use by the RIAs with their clients. These services include technology applications, operational support, administrative infrastructure, access to service providers, and access to financial products, among others. In addition, we offer RIAs the Kestra Institutional wrap-fee program and the services described below (Kestra Institutional Program) for use with their clients. Our relationship with Envestnet Asset Management, Inc. (Envestnet) enables us to offer the Kestra Institutional Program described below.

The process for engaging Kestra Institutional for the Kestra Institutional Program begins with an RIA obtaining financial information from their clients in order to develop investment recommendations that meet the RIA client's goals and objectives. The RIA reviews their client's information and analyzes it in order to recommend appropriate products and service based on the stated investment objectives, investment time horizon and risk tolerance. A client will enter into a contract with their RIA setting forth terms and conditions of the advisory services relationship. That agreement also authorizes Kestra Institutional, and their designee, to perform services for the client in connection with the Kestra Institutional Program. A client will also enter into separate custodial/clearing agreements with the applicable custodian. Custody of funds and securities is maintained by the applicable custodian and not by Kestra Institutional. Clients that participate in this Kestra Institutional Program will receive our privacy policy and the Envestnet Brochure that further describes their services as an investment adviser.

An RIA will contact their clients at least annually to review the performance of the client's Kestra Institutional Program account and any changes to the financial situation, investment goals and objectives of the client. Clients are required to provide their RIAs with updated information regarding their financial condition and changes that may have occurred in the client's objectives, time horizon or risk tolerance. Clients should contact their RIAs regarding any questions about the management of their account in the Kestra Institutional Program.

Third Party RIAs may access the NFS Custodial Platform, the Outside Custodial Platform or the Independent RIA Platform. A description of the fees for each of these services is described in the next section.

## **PROGRAM SERVICES & FEES**

### **NFS Custodial Platform**

#### **Third-party Strategists**

We have, or Envestnet has, entered into agreements with various third-party strategists that provide allocation models for investments in mutual funds and exchange-traded funds (ETFs).

Through this service, RIAs use the models provided by these strategists to recommend an allocation of assets among mutual funds and/or ETFs. Envestnet is responsible for the actual trading and investment of assets based upon the recommendation of an RIA and strategist model. A client may be restricted in their ability to directly contact and consult with the strategists or Envestnet, but their RIA is available to address any questions, issues or concerns regarding the strategists or their models. The result is an account portfolio comprised of selected mutual funds and/or ETFs based upon the client's investment objectives and risk tolerance. Accounts using third-party strategists typically have a minimum account size requirement between \$10,000 and \$50,000. The fees for management of third-party strategist accounts are generally within the ranges set forth below. The Program Fee represents the fee range for Kestra Institutional and Envestnet, but does not include transaction or ticket charges, or other fees, charged by a broker or a custodian for their services. Such fees will be disclosed separately to the RIA and their client. The Manager Fee represents the fee range of the third-party strategist that may provide allocation models for an account. Any fees that an RIA charges a client for managing an account on the Kestra Institutional Program are separate from the Total Fee and other fees below and are generally set forth in the agreement between a client and their RIA.

In the event Buckingham Strategic Partners is selected as a third party manager, Buckingham Strategic Partners will absorb the cost of the platform fee typically assessed to the client, rebates up to 30 bps with a minimum of \$55 per account to Kestra, on assets invested in Buckingham Strategic Partners investor models. Our Advisors do not receive any portion of this platform fee.

<u>Envestnet Program Fee</u>			<u>Advisor's Fee</u>		<u>Total Fee</u>	
<u>Assets</u>	<u>Minimum</u>	<u>Maximum</u>	<u>Minimum</u>	<u>Maximum</u>	<u>Minimum</u>	<u>Maximum</u>
\$0 to \$100,000	0.02%	1.15%	0.00%	2.48%	0.02%	2.50%
\$100,000 to \$250,000	0.02%	1.14%	0.00%	2.48%	0.02%	2.50%
\$250,000 to \$500,000	0.02%	1.13%	0.00%	2.48%	0.02%	2.50%
\$500,000 to \$750,000	0.02%	1.12%	0.00%	2.48%	0.02%	2.50%
\$750,000 to \$1,000,000	0.02%	1.12%	0.00%	2.48%	0.02%	2.50%
\$1,000,000 to \$2,000,000	0.02%	1.11%	0.00%	2.48%	0.02%	2.50%
\$2,000,000 to \$5,000,000	0.02%	1.10%	0.00%	2.48%	0.02%	2.50%
Above \$5,000,000	0.02%	1.10%	0.00%	2.48%	0.02%	2.50%

\*A minimum platform fee of \$55 may be applied if threshold is not met.

\*Total Fee is the sum of the Program Fee plus the Advisor's Fee. In instances where the maximum Program Fee plus Advisor Fee would exceed 2.5%, the Advisor fee is reduced so as to not exceed a 2.5% fee to client

## **Institutional Money Management**

Envestnet has entered into agreements with various third parties that will manage assets either directly or through pooled investment vehicles. Under this service, RIAs recommend managers to invest assets based upon the client's investment objectives and risk tolerance. Clients may be restricted in their ability to directly contact and consult with managers or Envestnet, but their RIAs are available to address any questions, issues or concerns regarding these managers or

their recommendations. The primary ways an RIA may provide their client's access to a manager through the Kestra Institutional Program are described below:

### **Separately Managed Accounts (SMAs)**

SMAs are accounts managed by firms who typically invest assets for large institutions and high net worth individuals. Unlike mutual funds, where assets are pooled with those of other investors, SMAs provide direct ownership by the client of the individual securities and ETFs within the SMA portfolio. This structure provides more control over the assets, allowing both the client and their RIA to customize an investment solution that reflects individual goals and objectives. SMAs typically have a minimum account size requirement of \$100,000, though some third-party managers require a minimum account size of \$250,000. SMA fees on Advisor Enterprise vary by strategist and style, however, the portion of the fees paid to Kestra Institutional by Envestnet will increase as the assets on the SMA platform increase. The fees for management of an SMA are generally within the ranges set forth below. The Program Fee represents the fee range for Kestra Institutional, Envestnet and the custodian providing services to an account. The Manager Fee represents the fee range of third-party managers that may provide management of an account. Any fees that an RIA charges a client for managing an account on the Kestra Institutional Program are separate from the Total Fee and other fees below and are generally set forth in the agreement between a client and their RIA.

#### **Equity SMA Assets\***

<u>Program Fee</u>			<u>Manager Fee</u>		<u>Total Fee</u>	
<u>Assets</u>	<u>Minimum</u>	<u>Maximum</u>	<u>Minimum</u>	<u>Maximum</u>	<u>Minimum</u>	<u>Maximum</u>
\$0 to \$250,000	0.00%	1.05%	0.00%	1.45%	1.05%	2.50%
\$250,000 to \$500,000	0.00%	0.88%	0.00%	1.62%	0.88%	2.50%
\$500,000 to \$1,000,000	0.00%	0.81%	0.00%	1.69%	0.81%	2.50%
\$1,000,000 to \$2,000,000	0.00%	0.77%	0.00%	1.73%	0.77%	2.50%
\$2,000,000 to \$5,000,000	0.00%	0.74%	0.00%	1.76%	0.74%	2.50%
Above \$5,000,000	0.00%	0.70%	0.00%	1.80%	0.70%	2.50%

\*An annual minimum custody fee of \$250 may be applied if the threshold is not met. In addition, a minimum platform fee of \$75 may be applied if the threshold is not met. The manager fee may vary.

#### **Fixed Income SMA Assets\***

<u>Program Fee</u>			<u>Manager Fee</u>		<u>Total Fee</u>	
<u>Assets</u>	<u>Minimum</u>	<u>Maximum</u>	<u>Minimum</u>	<u>Maximum</u>	<u>Minimum</u>	<u>Maximum</u>
\$0 to \$250,000	0.00%	0.75%	0.00%	1.75%	0.75%	2.50%
\$250,000 to \$500,000	0.00%	0.63%	0.00%	1.87%	0.63%	2.50%
\$500,000 to \$1,000,000	0.00%	0.56%	0.00%	1.94%	0.56%	2.50%
\$1,000,000 to \$2,000,000	0.00%	0.53%	0.00%	1.97%	0.53%	2.50%
\$2,000,000 to \$5,000,000	0.00%	0.52%	0.00%	1.98%	0.52%	2.50%
Above \$5,000,000	0.00%	0.48%	0.00%	2.02%	0.48%	2.50%

\*An annual minimum custody fee of \$220 may be applied if the threshold is not met. In addition, a minimum platform fee of \$175 may be applied if the threshold is not met. The manager fee may vary.

### **Unified Manager Accounts (UMAs)**

UMAs are accounts that combine traditional SMAs, third party strategists, equities, individual securities, mutual funds and ETFs into a single diversified portfolio. Assets are directly invested within each asset class by an overlay manager who 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 a UMA are generally within the ranges set forth below. The Program Fee represents the fee range for Kestra Institutional, Envestnet and the custodian providing services to an account. The Manager Fee represents the fee range of third-party managers that may provide services for of an account. Any fees that an RIA charges a client for managing an account on the Kestra Institutional Program are separate from the Total Fee and other fees below and are generally set forth in the agreement between a client and their RIA.

#### UMA Assets\*

Envestnet Program Fee			UMA Schedule			Total Fee*		
	Min	Max	Advisor's Fee	Min	Max		Min	Max
Up to 500k	0.32%	1.05%	First 250K	0%	2.18%	First 250K	0.32%	2.50%
Next 500k	0.27%	1.00%	Next 500k	0%	2.23%	Next 500k	0.27%	2.50%
Next 1MM	0.23%	0.96%	Next 1MM	0%	2.27%	Next 1MM	0.23%	2.50%
Next 3MM	0.20%	0.93%	Next 3MM	0%	2.30%	Next 3MM	0.20%	2.50%
Over 5MM	0.18%	0.91%	Over 5MM	0%	2.32%	Over 5MM	0.18%	2.50%

\*The following will apply:

- An annual minimum custody charge of up to \$250 per sleeve may apply if threshold is not met.
- An annual minimum platform fee of \$75 may apply if threshold is not met.
- Minimum account size of \$100,000.
- Manager fees may vary based on SMA manager chosen.
- There is an additional charge of up to 0.02 percent for every SMA manager chosen in a UMA account.
- Total Fee is the sum of the Program Fee plus the Advisor's Fee. In instances where the maximum Program Fee plus Advisor Fee would exceed 2.5 percent, the Advisor fee is reduced so as to not exceed a 2.5 percent Total Fee

#### **Advisor as Portfolio Manager Wrap (APM Wrap)\***

Our relationship with Envestnet allows us to offer the Advisor as Portfolio Manager Wrap Program (APM-Wrap) to Kestra affiliated RIAs. The APM-Wrap program allows RIAs to charge one consolidated fee for investment advisory services and transaction fees rather than separately charging advisory and transaction fees as they do in the Advisor as Portfolio Manager Tickets program.

The wrap fee is assessed as a percentage of the value of your account. Because the wrap fee does not change in relation to transaction volume, you will generally derive greater benefits from a wrap program when your account is actively traded. If, over time, your trade volume is low, we generally recommend you consider converting your account to the APM Tickets program or terminating your advisory agreement. Likewise, if your accounts are in the APM Tickets program the trading activity in your account is high, we generally recommend you consider converting to the APM Wrap program in order to avoid individual transaction charges applicable to the APM Tickets program. Depending on the advisory fee charged by your financial advisor, the size of the account, the number of trades placed in your account and the transaction costs

associated with those trades, the APM-Tickets program may cost more or less than the APM-Wrap program. When your advisor chooses to pay your transaction charges or where the securities you purchase have no associated transaction charges, the APM-Tickets program is the lowest cost, providing your advisor does not adjust their advisory fee to account for their additional expense.

The fees for APM Wrap 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 below. Except where otherwise designated, the AdvisorEnterprise Program Fee includes fees for our firm, Envestnet, custody and trading services. APM-Wrap accounts typically require a minimum account size of \$10,000 and a combined managed asset value for the household equal to or greater than \$25,000 to qualify. Because in the APM-Wrap program we absorb ticket charges for trades in your account, we have an incentive to limit trading in the account which creates a conflict of interest. While there is no cap on the number of trades in your account, the APM-Wrap program is priced to accommodate approximately 120 trades per account annually. We reserve the right to assess your Advisor the cost of trades that exceed this amount which creates an incentive for the Advisor to limit trading in your account to avoid this cost.

### **APM Wrap Fee Schedule\***

Platform Fee: Ranges from 0.14% - 0.10% with a minimum annual sponsor fee of \$95\*\*  
Maximum Client Fee: 2.5%

*\*Ticket charges on certain security types still apply, but the fees will generally be passed to your advisor.*

*\*\*The platform fee is deducted from the Client Fee you negotiate with your advisor. This payment structure incentivizes your advisor to increase the advisory fee assessed by an amount sufficient to offset the platform fee.*

### **Additional Information about Fees**

All Kestra Institutional Program Fees are negotiable, subject to the maximum amount set forth above and charged on a per account basis. The cost of the services provided through the Kestra Institutional Program may be more or less than the cost of purchasing similar services separately. Among the factors impacting the cost of the Kestra Institutional Program are the account size, type of account registration, nature of services provided, amount of assets specific to a particular strategy and the particular service or third-party manager selected.

As noted above, if there is little or no trading activity in your advisory account, or if the trades would not otherwise be subject to a transaction fee, a wrap fee arrangement may cost more than separately paying for advisory fees and transaction charges. You should review your account statements and periodically talk to your Advisor about the level of trading in your account, the fees involved, and the type of account that makes sense for you. There may be considerations other than cost, like access to certain managers that make one program more attractive than another.



RIAs receive compensation as a result of your participation in the Kestra Institutional Program. The amount of this compensation is generally more than what the RIA would receive if you participated in our other platforms or programs or separately paid for investment advice, brokerage and other services. RIAs therefore have a financial incentive to recommend this platform over other programs or services we offer.

Other costs may be assessed to you that are not part of the Kestra Institutional Program. These may include execution charges on international and non-listed securities, dealer mark-ups, spreads paid to market-makers, and transactions executed away from National Financial. All brokerage account fees, including annual maintenance on retirement accounts, cash management, mailing, and termination fees apply to each account. There is a minimum annual account fee for each program on AdvisorEnterprise that may be assessed to your account. The above fees do not include other costs that you may be subject to, including the initial and ongoing expense of third party-investments or third-party pooled investment vehicles, including mutual funds, annuities, or alternative investments. Such expenses are usually set forth in the applicable offering document of the investment and are payable or borne by you in addition to other fees outlined above

## Outside Custodial Platform

### Separately Managed Accounts Program

#### *SMA Equity, Balanced, and Fixed Income Portfolios*

Account Assets	Platform Fee	Sponsor Fee
First \$1,000,000	0.06%	0.08%
Next \$1,000,000	0.06%	0.06%
Over \$2,000,000	0.06%	0.04%

\*Minimum annual per account fee: \$75

\*Minimum annual custody fee: \$150

\*Money manager and custody fees are not included above

\*Minimum account size is typically \$100,000 per equity & balanced manager

\*Minimum account size is typically \$250,000 per fixed income portfolios

\*Minimum account size for mutual fund portfolios is typically \$2,500 per fund

### Advisor as Portfolio Manager Program

Account Assets	Platform Fee	Sponsor Fee
First \$1,000,000	0.02%	0.03%
Next \$1,000,000	0.02%	0.03%
Over \$2,000,000	0.02%	0.03%

\*Minimum account size: \$10,000

\*Minimum annual per account fee: \$15

\*Custody fees not included

### Unified Managed Account Program

Program Fee Structure: Tiered platform and sponsor fees\*\*, plus an additional manager fee for

each separately managed account model.

Account Assets	Platform Fee	Sponsor Fee
First \$1,000,000	0.06%	0.08%
Next \$1,000,000	0.06%	0.06%
Over \$2,000,000	0.06%	0.03%

\*Minimum annual platform fee of \$75

\*Minimum account size is \$150,000 per model allocation

\*Custody fees are not included

\*\*The portion of the fee shared with Kestra

Institutional increases as assets in the UMA platform increase

### Data Aggregation and Account Billing Services

Account Assets	Platform Fee
All Assets	1.50%

\*Minimum annual per account fee: \$30

\*Maximum annual per account fee: \$300

\*Data Aggregation utilizing ByAllAccounts services: \$60 surcharge per account per year

### PMC Multi-Manager Account Program

Account Assets	Moderate	Moderate Growth	Growth	Aggressive
First \$500K	0.60%	0.65%	0.70%	0.75%
Next \$500K	0.55%	0.60%	0.65%	0.70%
Next \$1MM	0.50%	0.55%	0.60%	0.65%
Over \$2MM	0.45%	0.50%	0.55%	0.60%

\*No minimum annual per account fee

\*Minimum account size is typically \$250,000 per MMA portfolio

\*Fees include individual manager, overlay strategy, and platform services fees

\*Custody fees are not included

\*Sponsor fees: 5 basis points at all breakpoint tiers

### Investnet Tax Transition Services and Tax Management Programs

#### *Investnet Tax Transition Services Program*

Program Assets	Platform Fee
All Assets	0.15%

#### *Investnet Tax Management Program*

Program Assets	Platform Fee
All Assets	0.08%

### Socially Responsible Investments (SRI) Personal Conviction Screens Program

Program Assets	Platform Fee
All Assets	0.08%

### **Investnet/eCD Program Fee Schedule**

Program Fee Structure: Flat platform fee plus an additional eCD fee for each household

Program Assets	Platform Fee	eCD Fee
\$0-\$600,000	\$150 per household, per year	\$200 per household, per year
Over \$600,000	\$400 per household, per year	\$550 per household, per year

\*Minimum account size is \$25,000

\*Program Fees will be charged to a separate platform account as designated by Advisor

\*Fees will be calculated and debited on a quarterly basis in advance

## **INVESTMENT AND BROKERAGE DISCRETION**

By choosing to participate in the Kestra Institutional Program, clients of an RIA grant discretionary investment authority to their RIA and us so that each may take all necessary steps for providing advisory services for an account, such as determining the securities and amount to be bought or sold and recommending any appropriate third-party strategist or third-party manager.

A client may designate a broker/custodian for their assets and thus we will not have authority to negotiate commissions among various brokers or to obtain volume discounts, and best execution may not be achieved. Not all investment advisers require directed brokerage. Clients in the Kestra Institutional Program may pay higher commissions and transaction cost, and receive less favorable net prices than other clients to the extent the broker or custodian separately charges for their services. Third-party managers may have policies to aggregate trades with their own trades or trades for other clients as disclosed in more detail in each third-party's disclosure Brochure or other offering document, as applicable.

One of the broker/custodians an RIA designates in the Kestra Institutional Program is Charles Schwab & Co. Inc. (Schwab). Schwab provides Kestra Institutional with access to Schwab's institutional trading and custody services, which are typically not available to Schwab retail investors. These services generally are available to independent investment advisers on an unsolicited basis, at no charge to them so long as a total of at least \$10 million of the adviser's clients' assets are maintained in accounts at Schwab Advisor Services (which serves independent investment advisers and includes the custody, trading and support services of Schwab). These services are not contingent upon Kestra Institutional committing to Schwab any specific amount of business (assets in custody or trading commissions). Schwab's brokerage services include the execution of securities transactions, custody, research and access to mutual funds and other investments that are otherwise generally available.

Schwab Advisor Services makes available to Kestra Institutional other products and services that benefit Kestra Institutional but may not directly benefit the accounts of an RIA's clients. Many of these products and services are used to service all or some substantial number of such RIA's client accounts on the Kestra Institutional Program, including accounts not maintained at Schwab.

Schwab's products and services that assist Kestra Institutional include software and other technology that (i) provide access to account data (such as trade confirmations and account statements); (ii) facilitate trade execution and allocate aggregated trade orders for multiple accounts; (iii) provide research, pricing and other market data; (iv) facilitate payment of Kestra Institutional and an RIA's fees from clients' accounts; and (v) assist with back-office functions, recordkeeping and client reporting.

Schwab Advisor Services also offers other services intended to help Kestra Institutional manage and further develop its business enterprise. These services include: (i) publications and conferences on practice management and business succession; and (ii) access to employee benefits providers, human capital consultants and insurance providers. Schwab generally makes available, arranges and/or pays third-party vendors for the types of services rendered to Kestra Institutional. Schwab Advisor Services may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third party providing these services to Kestra Institutional. Schwab Advisor Services may also provide other benefits such as educational events or occasional business entertainment of Kestra Institutional personnel. In evaluating whether to recommend or require that clients of an RIA custody their assets at Schwab, Kestra Institutional may take into account the availability of some of the foregoing products and services and other arrangements as part of the total mix of factors it considers and not solely on the nature, cost or quality of custody and brokerage services provided by Schwab, which creates a potential conflict of interest.

### **Other Business Activities**

Kestra Institutional also provides products and services other than the Kestra Institutional Program, some of which are described below. Please refer to our disclosure Brochure for more information and disclosure regarding Kestra Institutional.

### **RIA Managed Accounts**

Kestra Institutional provides RIAs a customizable asset management software program through a Web-enabled platform that allows RIAs to create their own model portfolios and directly manage accounts for their clients separate from the Kestra Institutional Program (RIA Managed Account). In these situations, Kestra Institutional is providing only administrative services, provides no advisory services and is not responsible for the selection of the specific investment choices made with respect to an RIA Managed Account.

### **Administrative Services**

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

As of Dec. 31, 2020, we managed \$0 in assets for approximately 0 clients. Approximately \$0 is managed on a discretionary basis, and approximately \$0 is managed on a non-discretionary basis.

## **Item 5: Account Requirements and Types of Clients**

Advisors' clients include individuals, pension and profit sharing plans, corporations and other business organizations, trusts, estates and charitable organizations. We generally require a minimum combined household account value of \$25,000 of managed assets, although we may waive the account minimum at our discretion. AdvisorEnterprise Platform requires a combined managed asset value for the household equal to or greater than \$25,000 for any new account opened on the platform. 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. Kestra Institutional Services, LLC (the sponsor of this program) and Envestnet (the platform provider) assess fees based on the size of the account. Certain accounts may have assets that do not generate the minimum fees established by both parties. The combination of these minimums is referred to as the minimum annual platform fee. If the combined sponsor and platform fees do not meet at least the specified minimums of \$60 for Advisor Managed accounts, \$55 for third party strategist accounts, \$75 for Separately Managed accounts, and \$125 for Annuity accounts, you will be assessed the difference between the fee generated from the account and the specified minimum platform fee.

## **Item 6: Portfolio Manager Selection and Evaluation**

Our research and due diligence process is a multi-step approach designed to identify and monitor the managers in the Kestra Institutional Program to provide services for you over various market cycles. Through our relationship with Envestnet, we rely primarily on Envestnet to identify prospective managers and to perform due diligence on such managers that may be selected in the Kestra Institutional Program. Managers are typically evaluated based on data and information from various third-party sources, such as independent databases, and from the particular manager. Among the information collected and analyzed are historical performance, investment philosophy, investment style, historical volatility and correlation across asset classes.

To the extent Envestnet has not performed the research and due diligence on a third-party manager, we will review the third party through our internal due diligence process. Managers are typically evaluated based on data and information from various third-party sources, such as independent databases, and from the particular manager. Among other things, our process entails examining items such as the disclosure Brochure on Form ADV, Part 2A, of the manager, any applicable offering document, performance reports and other information as deemed necessary to help determine the third party's investment strategy. We also attempt to verify information by comparing it to publicly available sources.

RIAs are also responsible for the selection of any third-party investments or investment vehicle

based upon your specific situation, requirements and suitability. RIAs will recommend the replacement of any third-party investments or investment vehicle consistent with their duties as a fiduciary under applicable law.

As soon as possible, but in no event later than 45 days after the end of each calendar quarter, we, the custodian or Envestnet will make available via electronic means a quarterly statement containing a description of all activity in an account during the previous quarter. Account statements will be forwarded by the custodian on a quarterly basis. As with all investments, we do not guarantee positive performance results.

We typically do not review performance information of third parties, and performance information may not be calculated on a uniform or consistent basis among third-party managers available through the Kestra Institutional Program. Further, third parties may not calculate performance in accordance with any industry or other standards.

## **Item 7: Client Information Provided to Portfolio Managers**

Your information is forwarded to us and to Envestnet so that it may be sent along to any appropriate third-party strategist or third-party manager to perform the services of the Kestra Institutional Program described above.

## **Item 8: Client Contact with Portfolio Managers**

You may be restricted in your ability to directly contact and consult with the strategists, portfolio managers and Envestnet regarding your account and participation in the Kestra Institutional Program.

## **Item 9: Additional Information**

### **Disciplinary History**

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

## **Other Financial Industry Activities and Affiliations**

Kestra Financial, Inc. owns other registered investment advisers, insurance agencies and other product and service providers (Kestra Affiliates). When a firm is acquired, production incentives are typically put into place in order to create an incentive to maximize earnings. When such a

firm's financial professionals are registered with us or one of our affiliates, the financial professional has an incentive to both maximize their production and to recommend the products and services of their affiliates. From time to time, we may recommend or provide products and services from or through Kestra Affiliates, and these Kestra Affiliates and our firm generally receive compensation as a result of such recommendations. Recommending or providing products or services by or through a Kestra Affiliate would be deemed to create a conflict of interest since it would result in increased compensation to a Kestra Affiliate. We use the same research, selection and review process for any Kestra Affiliate as we do unaffiliated firms.

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

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. Kestra IS also receives execution price discounts from NFS, which increase with trade volume. These discounts are not shared with our advisors or their clients. Accordingly, we have a financial incentive to recommend and use Kestra IS and NFS for brokerage and custodial services.

NFS charges Kestra IS for products and services, and Kestra IS sets its own price for such services, including administrative services and transaction charges. Kestra IS typically charges clients more for these services than it pays to NFS, and the markups vary by product type. 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 has a contract with NFS which provides Kestra IS incentives to place assets with them, as well as disincentives in the form of charges to Kestra IS if the firm were to terminate their contract with NFS before the end of the contract term. These contract terms create a conflict of interest for Kestra IS since Kestra IS has an incentive to utilize NFS as clearing firm and custodian.

Kestra IS receives compensation from NFS to offset the cost of transitioning assets from direct mutual fund providers. NFS will pay Kestra IS a portion of the fees and costs which customers incur from other clearing providers or otherwise in connection with the transfer of eligible

accounts. This compensation is not shared with our clients or our advisors, however the compensation serves an incentive to recommend clients transfer their accounts to NFS, which is a conflict of interest.

NFS will also pay Kestra IS an annual net flows credit of 9 bps on eligible assets transferred onto the NFS platform. This revenue is not shared uniformly with our advisors, but to the extent it is shared, the conflict of interest to refer assets to NFS is also shared with our Advisors.

NFS assesses IRA accounts an annual charge of \$35, which is shared with Kestra IS in an increasing proportion as the number of total accounts custodied at NFS increases. This payment arrangement with Kestra IS serves as an incentive to open accounts with our primary custodian. No portion of this fee is shared with our Advisors.

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 and to charge your Advisor any retail ticket charges that result from a trade correction.

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

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

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



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

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

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

You should read the brochure of your RIA and any other materials provided by these other investment advisers for information regarding their services and fees if you engage them to provide advisory services.

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

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

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

## **Review of Accounts**

An RIA will contact their clients at least annually to review the performance of the client's Kestra Institutional Program account and any changes to the financial situation, investment goals and objectives of the client. Clients are required to provide their RIAs with updated information regarding their financial condition and changes that may have occurred in the client's objectives, time horizon or risk tolerance. Clients should contact their RIAs regarding any questions about the management of their account in the Kestra Institutional Program. Kestra Institutional will not review your account.

## **Client Referrals and Other Compensation**

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

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

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

Our affiliate, Kestra IS, receives both financial and non-financial support from certain mutual fund, insurance and other companies or their affiliates based upon the sale of such companies' products by employees or agents of RIAs in their capacity as registered representatives of Kestra IS. Kestra IS receives more compensation for the sale of products of Select Providers than for the products of other providers we sell and thus have a financial incentive to sell the products of Select Providers. The amounts and forms of compensation Kestra IS receives from Select Providers vary based on a number of factors including level of past sales, prospective future sales and the types of service and access to distribution we provide. Kestra IS receives one or more of the forms of compensation described below in connection with our arrangements with each Select Provider. These payments are made from the resources of the investment adviser or distributor (or one of their affiliates) in the case of mutual fund Select Providers, and from the resources of the insurance company (or its affiliate) in the case of variable annuities, group annuities, and variable life products. These payments are in addition to the sales charges, service fees, redemption fees, deferred sales charges and other fees and charges described in the prospectus fee tables or offering documents of the various products. These relationships may be deemed to create a conflict of interest, as they could result in increased compensation for our affiliate.

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

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

### **Mutual Funds, ETFs, and UITs**

Select Providers of mutual funds and ETFs pay us or our affiliate either an amount of up to 0.065% on AUM for products attributable to us, or fixed fees of up to \$200,000 annually, or 20% of the weighted average net expense ratio of ETFs participating in the Kestra NTF ETF program, and 0.175% on AUM of UITs. We also receive fixed fees of up to \$60,000 annually to support and participate in various conferences and seminars conducted by us and our affiliates. Our affiliate receives up to \$19,000 through the free ticket program described in this brochure.

### **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 also pay us or our affiliate fixed fees of up to \$50,000 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 also pay us or our affiliate fixed fees of up to \$50,000 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 Institutional's affiliates up to \$140,000 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 1.25% of new investments in such products. In addition, such providers pay us or our affiliate fixed fees of up to \$50,000 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 Insurance Products – Variable Annuities and Variable Life Insurance**

Select providers of variable insurance pay our affiliate, Kestra IS, an amount up to .25% of the amount of our new sales of their variable annuity products quarterly. Select providers of variable life insurance products also pay our affiliate, Kestra IS, or their affiliated insurance agencies wholesale overrides in an amount up to approximately 31% of first year target premium and an amount up to approximately 4% of any renewal premiums of their variable life products. These providers will also pay our affiliate, Kestra IS, fixed fees of up to \$50,000 annually to support various workshops and meetings, to support development of account management tools and other technology and to support due diligence efforts conducted by us and our affiliates. 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.

### **Securities Backed Lines of Credit**

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 use their securities as collateral to obtain a line of credit. In consideration for marketing their SBLOC programs, The Bancorp Bank, Tristate Capital Bank, and Goldman Sachs Private Bank Select pay Kestra IS quarterly revenue sharing payments of up to 50 bps based on the average daily outstanding loan balance (total loan amount) of the SBLOC. Additional details are available regarding this calculation upon request. Such providers also pay us or our affiliate fixed fees of up to \$30,000 annually to support and participate in various conferences and seminars conducted by us and our affiliates.

### **Fixed Income**

Our affiliated broker-dealer acts as a selling agent on a best efforts basis in their capacity as a broker-dealer for new issues of fixed income securities that your Advisor may purchase for your account. In this regard, we rely upon our relationship with a third-party broker-dealer named Advisors Asset Management, Inc. (AAM) to complete transactions in fixed income securities your Advisor may recommend. In connection with 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 based on the value of the fixed income security in your advisory account. AAM pays Kestra IS compensation for order flow based upon the total amount of fixed income securities executed through their firm. Kestra IS receives 20 percent of the concession charged by AAM for all our clients' advisory and brokerage transactions. Similarly, Kestra IS receives up to 25bps for structured product transactions utilizing First Trust Portfolios, LP (FTP). These arrangements create a conflict of interest since our affiliated broker/dealer will earn additional compensation associated with the use of our broker-dealer's, AAM's and FTP's services. Your Advisor does not receive any portion of this additional compensation, however.

Fixed income transactions may also be executed through NFS's BondTrader Pro platform. Kestra IS assesses a markup on the transaction, which creates an incentive for us to utilize the services of BondTrader Pro and increase compensation to our affiliate. However, your Advisor does not receive any portion of the markup.

Additional information regarding the companies and amounts and types of compensation Kestra IS receives is available on our website at:

**<https://www.kestrafinancial.com/disclosures/company-information>.**

If you do not have access to the website, you may contact your Advisor or our home offices for additional information. These relationships create a conflict of interest as they result in increased compensation to us, your Advisor or our affiliates.

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

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

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

In order to help cover or defray the costs of transitioning from another investment adviser to Kestra IS, our representatives generally receive various forms and amounts of transition assistance. Such transition assistance may include a promissory note loan, rent, technology services and equipment, legal expenses, administrative support, termination fees associated with moving accounts and regulatory services, payments based on production, reimbursement of fees, free or reduced-cost marketing material, attendance to conferences and events, and access to preferred pricing.

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

Kestra Institutional generally charges a non-refundable due diligence fee to third-party managers considered for inclusion in our investment platforms to RIAs. Paying such fees does not guarantee acceptance on any of our platforms or access to RIAs. Initial fees charged may be up to \$5,000, depending on the complexity of the manager and the resources required to perform the due diligence. Thereafter, the due diligence fee is typically \$1,500 annually, but may be more or less than this amount based upon the third-party manager and the nature of its services. We may waive these fees from time to time.

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

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

We have arrangements with various third-party managers or service providers that our Advisors may refer you to. We receive compensation from these managers or service providers to support conferences, training, marketing efforts, staffing, ongoing education of Advisors and the marketing efforts we perform on their behalf. These fees are negotiable, and such compensation ranges up to \$720,000 or 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 ranges up to 0.05 percent of the assets under management and is not shared with your Advisor. You are not charged a higher fee based upon these arrangements. The third-party managers or service providers with which we currently have such arrangements are: BTS, Morningstar, AssetMark, SEI Investments Management Corporation ("SEI"), Brinker Capital, LWI Financial, City National Rochdale, Symmetry Partners, CLS Investment Management, Horizon Investments.

NFS and IWS offer a no-transaction-fee (NTF) mutual fund program where the transaction charge is waived for the purchase and sale of mutual funds participating in the program. Participating funds compensate NFS or IWS as applicable, which in turn compensates 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 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.

Through the custodial agreement between Kestra IS and NFS, NFS remits a portion of the compensation it receives to Kestra IS from mutual funds participating in the transaction fee (TF) mutual fund program. This compensation increases as the amount your assets held in funds participating in the TF mutual fund program increases. 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. Your Advisor does not receive any portion of the fees paid to Kestra IS through the TF program.

NFS also offers, as part of their NTF program, a no 12b-1 fee, no-transaction-fee (iNTF) mutual fund program where the transaction charge is waived for the purchase and sale of mutual funds participating in the iNTF program. Participating funds compensate NFS 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 iNTF 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-iNTF funds subject to transaction charges.

Kestra IS offers a no-transaction-fee (NTF) program where the transaction charge is waived for the purchase and sale of ETFs participating in the program (the NTF ETF program). Participating funds pay our affiliate a rate based on the amount of assets invested in those funds and the average weighted net expense ratio of the fund. As a result, we have a conflict of interest to the extent Advisors recommend these funds, because our affiliated broker-dealer will receive compensation in addition to any advisory fees you pay. If your Advisor absorbs the transaction fees for your account, the NTF program creates a conflict of interest as it results in increased compensation to your Advisor.

Kestra IS sponsors a Free Ticket Program through which we provide clients the opportunity to purchase or exchange 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 reimburse our affiliate broker-dealer, Kestra IS, for trading costs associated with their funds. Kestra IS supports the trade costs for certain vendors in the program, which incentivizes the firm to recommend those vendors for whom trade costs are not supported. 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 available through the NTF, iNTF, NTF ETF, or Free Ticket Programs, they may be more expensive over time when compared to other share classes of these funds, or similar mutual funds or ETFs with transaction fees because the expenses within the mutual fund or ETF are higher. These arrangements create a conflict of interest as they result in increased compensation to our affiliated broker-dealer and to your Advisor to the extent your Advisor would normally absorb any trading costs. You should discuss the details of these costs with your Advisor or contact our Chief Compliance Officer for additional information.

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

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

In addition to a bank sweep deposit option, Kestra IS makes available two money market funds, the Fidelity Government Money Market Daily Money fund (FZBXX) and the Fidelity Treasury Money Market Daily Money fund (FDUXX), that you may elect to have serve as the cash sweep vehicle for your brokerage account. Pursuant to Kestra IS's clearing agreement with NFS, NFS remits to Kestra IS the amount of 12b-1 fees and shareholding servicing fees for money market mutual funds affiliated with or specified by NFS in amounts set forth in the prospectus or other offering document for such funds, plus ten basis points of amounts invested in such funds. The higher the 12b-1 fees paid by the money market mutual fund, the lower the yield on cash in your account. This revenue sharing creates a conflict of interest as the increased revenue generated from the default money market funds is paid to our affiliated broker dealer. Because our affiliated broker-dealer receives and retains these amounts, we have an incentive to recommend a brokerage account offering sweep money market funds paying 12b-1 fees, which in turn will negatively impact the amount you earn on cash in your account. Your Advisor does not receive any portion of the money market compensation paid to Kestra IS. Kestra IS does not make available other share classes of the same funds, including those that do not pay 12b-1 fees, available as sweep money market options, however, you may purchase other money market funds, including those that do not pay 12b-1 fees, and move assets from the money market fund or bank deposit account that serves as your cash sweep vehicle into such other funds. While you are not obligated to maintain your assets in the core sweep money market fund or bank deposit sweep account you select, cash in your brokerage account will be placed

in the sweep option you select by default and remain in that sweep option until the funds are invested elsewhere or you withdraw the cash from your account.

In a low or negative interest rate environment, NFS is able to pass through fees or negative interest rate charges they incur to Kestra IS. While the costs are not transferred to the Advisors, the costs can create an incentive for Kestra IS to recommend clients trade out of the default sweep option.

Kestra IS is credited the interest assessed on margin accounts by NFS above the prime lending rate plus 100 basis points. This credit creates a conflict of interest since our affiliated broker-dealer receives additional compensation beyond the advisory fees collected on accounts custodied at NFS, which provides an incentive to place business with that custodian.

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

## **Voting Client Securities**

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

## **Financial Information**

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