Equity Services Incorporated®

Regulation BI Disclosure

UNDERSTANDING OUR RELATIONSHIP: FEES, COSTS, CONFLICTS AND SCOPE OF SERVICES

Pursuant to Regulation Best Interest, you are receiving this disclosure because you are receiving, or will receive in the future, a recommendation(s) from Equity Services, Inc. ("ESI" or "Firm"), acting as a broker-dealer, to purchase an investment, to engage in an investment strategy, or to open a brokerage account. The services ESI offers are more fully described in this document.

WHEN WE ACT AS A BROKER DEALER

The products and services we offer to you as a broker dealer are more fully described below. When buying or selling securities for you in this capacity, we earn a commission. Sometimes the commission is imbedded in the purchase price of your investment, and sometimes, the commission is paid by a third party. We may provide you investment advice in connection with the transaction, however, we receive no separate compensation for it.

We do not actively monitor your brokerage-related investments after purchase, but you may contact your representative after purchase if you wish to have your investments reviewed. Our representatives do not have discretionary authority to purchase or sell securities without your approval before each transaction. You will have the ultimate decision regarding the purchase or sale of your investments.

Registrations to sell securities as a registered representative of a Broker Dealer are administered by the Financial Industry Regulatory Authority, or "FINRA." Qualification exams, which will impact the products your registered representative can offer to you, are as follows:

License	Description	Description of Products and Services
Series 6	Investment Company and Variable Contracts Products Representative	Permits the sale of mutual funds, variable annuities, variable universal life insurance, unit investment trusts, municipal fund securities (including 529 plans)
Series 7	General Securities Representative	Permits the sale of all securities products, including without limitation, corporate securities, ETFs, REITs, municipal fund securities, options, direct participation programs, mutual funds, variable annuities and variable universal life insurance.
Series 22	Direct Participation Programs Limited Representative	Permits the sale of direct participation programs such as non-traded REITS, limited partnerships, limited liability companies and S corporations
Series 52	Municipal Securities Representative	Permits the sale of municipal securities (including general obligation bonds, revenue bonds, special bonds, and short-term obligations) and municipal fund securities.

Without the necessary registrations, your registered representative cannot offer certain products to you. To determine which registrations your registered representative has, you can ask him or her. Additionally, you can go to https://brokercheck.finra.org and search by your registered representative's name. If your registered representative does not have the registration needed to recommend a product you are interested in, you should ask your representative if another registered representative with the required registration is available to help.

WHEN WE ACT AS A REGISTERED INVESTMENT ADVISER

ESI is dually-registered as both a broker-dealer and a federally-registered investment adviser. Therefore, ESI can also offer you investment advisory services. If you are offered these services, you will be asked to sign a separate investment advisory agreement. When acting as an investment adviser, we receive compensation for the advice we provide, and we, or a third-party adviser we have recommended to you, typically provide ongoing monitoring of your investment. Typically, you will not pay commissions in connection with transactions, but you will pay an asset based fee (calculated as an annual percentage of your account value), as well as transaction and other fees to ESI if your investments are held in our brokerage accounts. To better understand our Investment Adviser services, you should review ESI's Form ADV 2A, which you can find at www.equity-services.com. Likewise, if we recommend a third-party adviser to you, you should review that adviser's Form ADV 2A.

If Investment Adviser services are of interest to you, you should ask your registered representative if he or she, or another representative at ESI, can offer them to you. If you would like to see if your registered representative is an investment advisory representative, and therefore licensed to offer you these services, you can search for him or her on the Securities and Exchange Commission's website, at www.adviserinfo.sec.gov.

THE TYPE AND SCOPE OF SERVICES WE PROVIDE TO YOU AS A BROKER DEALER, AND THEIR MATERIAL COSTS

ESI offers the following products and services as a broker dealer: Brokerage Accounts, Mutual Funds, Variable Annuities, Real Estate Investment Trusts (REITs,) Structured CDs, Variable Universal Life Insurance, Options, Municipal Bonds & 529 Plans, and Fixed Indexed Annuities. These are described more fully below.

The material fees and costs that you pay will depend on the type of investments, accounts, and services that you chose to use. Be sure that you understand them, because they will reduce the returns on your investment. The descriptions contained in this document contain many of the common fees and expenses associated with the specific account or investment type. However, where these fees and expenses are described in other documents, you will often be pointed towards them for a more comprehensive and precise disclosure which relates specifically to the product or service you are purchasing.

1. Brokerage Accounts

Brokerage Accounts hold various assets and products that you may choose to purchase from ESI. They can hold mutual funds, money market securities, Stocks and Bonds, REITs, Exchange Traded Funds ("ETFs,") options, and Municipal Securities including 529 plans**.**

ESI has contracted National Financial Services, LLC ("NFS,") an affiliate of Fidelity Investments, to act as the custodian and clearing Firm for your brokerage account. Services provided to you through your brokerage account include account statements reporting on all investments in your account (at least quarterly), money transfers, securities transfers, check writing, margin loans, tax reporting, trade confirmations, dividend reinvestment, and automatic deductions from your account to pay fees. NFS also provides the customer with online account access.

For additional disclosure about the services provided in ESI's brokerage accounts, you should consult your ESI Customer Agreement and Disclosure, and the NFS Brokerage Account Application.

<u>Material Fees and Costs.</u> There are fees and costs associated with brokerage accounts. These include, but are not limited to: transaction fees, account service fees, cashiering fees, margin fees, lending fees and annual IRA fees. In some instances, NFS charges a fee for these services and ESI has increased the fee to you to cover its costs. In other instances, ESI simply passes the fee along to the retail investor without increasing it. A complete listing of ESI's brokerage fee schedule can be found at www.equity-services.com, as well as in ESI's Customer Agreement and Disclosures document.

In addition, separate commissions may be charged in connection with the different investments you can hold in your brokerage account. These fees are described in the "Brokerage Account Client Transaction and Service Fee Schedule," which can be found on our website, www.equity-services.com. Additionally, the specific commission you were charged will also appear on your trade confirmation, which will be delivered to you after each transaction. If a commission is imbedded in a product you are purchasing in a brokerage account, it will be listed in that product's prospectus.

2. Mutual Funds

ESI makes available, and often recommends to retail investors, mutual funds. A mutual fund pools money from many investors and uses the money to purchase securities such as stocks, bonds, and short-term debt. The combined holdings of the mutual fund are known as its portfolio. Investors buy shares of a mutual fund. Each share represents an investor's part ownership in the fund and the income it generates.

ESI believes that mutual funds have features that make them attractive options for many retail investors. These include:

- Professional management, hired by the fund company, who select individual securities and monitor their performance;
- Diversification, as fund managers typically invest in numerous different investments, and sometimes multiple sectors, which can protect you from a decline in a given security or sector; and
- Affordability, as mutual funds typically have relatively low minimum investment amounts, and are accessible to a wide range of investors.

Mutual funds may be held in brokerage accounts, but you may also purchase them directly from the fund company through ESI, and the fund company will provide custody and other shareholder services to you.

<u>Material Fees and Costs</u>: Most mutual funds have the following fees and costs.

Class A Shares - When you purchase Class A shares, you are typically assessed a front-end sales charge that is deducted from your initial investment. A typical front-end sales charge, or "load" for A shares is 5.75%. For example, on a $100 investment in such a fund, $94.25 would be invested, and $5.75 would be paid to ESI (who then pays most of the compensation to your representative).

Class A shares generally are not subject to a sales charge when they are redeemed or sold. However, they typically are subject to service and/or distribution fees (known as "12b-1 fees") of approximately 25 basis points ("bps,") or 0.25%, which are generally lower than those of Class B or C shares. To illustrate, for a fund with a 25bps 12b-1 fee, for every $100 you invest in the fund, each year the fund will pay to ESI or ESI's clearing broker dealer NFS, 25 cents.

Breakpoint Discounts - Class A shares generally offer volume discounts called breakpoints, which may reduce or eliminate the amount of the front-end sales charge. The following chart shows the breakpoint schedule of one of the larger mutual funds:

Investment Amount	Front End Load
Less than $25,000	5.75%
$25,000 to $49,999	5%
$50,000 to $99,999	4.5%
$100,000 to $249,999	3.5%
$250,000 to $499,999	2.5%
$500,000 to $749,999	2%
$750,000 to $999,999	1.5%
$1 Million	0% (subject to a 1% surrender charge for 18 months).

Because of breakpoints, and the lower 12b-1 fees associated with Class A shares, investors making large mutual fund purchases tend to pay less over time using Class A shares (as opposed to Class B or Class C shares of the same fund family).

Even if the amount you are investing does not meet a breakpoint, you may still qualify for one. Specifically, when offered, "Rights of Accumulation" permit you to aggregate the value of your (and sometimes family members') current holdings in the same fund family to reach a breakpoint. Typically, the discount only applies to new investments. Additionally, where available a "Letter of Intent" permits you (and sometimes family members) to receive a volume discount by committing to purchase an amount of fund shares above a breakpoint within a specified time period. If you fail to purchase the indicated amount within the time period, a higher sales charge may be applied to your purchases retroactively.

While you may choose to purchase shares in a variety of fund families for diversification purposes, breakpoint discounts generally apply only to purchases within a single mutual fund family. Purchases involving different fund families will not assist you for purposes of obtaining breakpoint discounts, including those available pursuant to Rights of Accumulation or Letters of Intent.

Class C Shares - When you purchase Class C shares, you generally are not assessed a front-end sales charge. If you sell Class C shares within a certain number of years after purchase (typically one year), the amount you receive typically is reduced by a contingent deferred sales charge (CDSC).

Class C shares generally allow investors to invest 100% of their funds without the reduction of a front-end sales charge. However, they typically have higher annual fund operating expenses than Class A shares, due primarily to higher 12b-1 Fees, which are typically 100bps (or 1%) annually. To illustrate, on a $100 investment in such a fund, all $100 would be invested, but $1 would be paid to ESI or NFS every year (who then pays most of the compensation to your representative). Some Class C shares will convert over time to a share class with a lower 12b-1 fee, but some Class C shares will not.

If an investor has a shorter-term investment horizon, Class C shares may be less expensive that Class A shares because the initial sales charge will be lower. However, your annual expenses could be higher than Class A or B shares if the shares are held for the long term.

ESI generally will not accept purchases in C shares if the aggregate value of all A, B, and C shares held exceeds $500,000 within any fund family and/or in the aggregate value of all C shares held exceeds $500,000 across all fund families. The Fund may also have its own limit on the purchase of Class C shares.

Class B Shares - Like C shares (described above) when you purchase Class B shares, you are typically not assessed a front-end sales charge. However, if you sell Class B shares within a certain number of years after purchase (typically 6 years, a period longer than most C shares), your investment will be reduced by a contingent deferred sales charge (CDSC). Selling Class B shares during the period in which the CDSC applies can significantly diminish the overall return on an investment. Class B shares also have a 12b-1 fee that is typically higher than A shares. After a period of years, Class B shares usually convert to Class A shares. Class B shares may be more appropriate for investors who are not eligible for breakpoints and have a long-term time horizon.

Class R Shares - Class R Shares are generally not available to investors on the open market. Rather, they are designed to be available in workplace retirement plans, such as 401(k) accounts, 457 accounts, and employer sponsored 403(b) plans. Typically, R Shares do not have front end sales load, or a CDSC. However, they often have internal expenses which may make them more expensive than other share classes. Typically, Class R Shares will have higher 12b-1 fees, as high as 1%, which result in an expense ratio in the range of 1.5%. You should consult the prospectus of the specific fund you are considering to better understand its fees.

Other Share Classes. The discussion above covers the most common share classes used by retail customers (i.e. A, B, C and R) when recommended by broker dealers. However, the mutual fund industry continues to develop new pricing structures (i.e. share classes) in response to industry and regulatory trends. Sometimes, different and less expensive share classes of the same fund exist, but may only be available in advisory accounts. Each mutual fund's prospectus fully explains the fees and costs associated with any share class offered by the sponsor.

Other expenses. Regardless of share class, all mutual funds have operating expenses and management fees. You can find a fund's gross expense ratio, which expresses these fees as a percentage of the fund's assets being managed, in the prospectus. The gross expense ratio typically includes the following types of fees: accounting, administrator, advisor, auditor, board of directors, custodial, distribution (12b-1), legal, organizational, professional, registration, shareholder reporting, subadvisor, and transfer agency. The gross expense ratio does not reflect the fund's brokerage costs or any investor sales charges and is collected from the Total Annual Fund Operating Expenses from the fund's most recent prospectus fee table.

Exchanges: You should be aware that generally you will not be assessed a new front-end load if you sell a fund and purchase a new fund within the same fund family (commonly referred to as an "intra-fund family exchange"). However, you generally will be charged a new front-end load if you purchase a new fund in a different fund family. This presents a conflict of interest for your Registered Representative and ESI, because they will make more money for recommending that you purchase a fund in a new fund family.

The front-end sales charge, 12b-1 fees and breakpoints may differ for the particular mutual fund you are purchasing as compared to the illustrations and hypothetical examples above. Additionally, a mutual fund family may have numerous different share classes, with characteristics that may or may not resemble the descriptions above to varying degrees.

ESI recommends that you consult the fund's prospectus and your representative to ensure you understand the fee structure associated with any mutual purchase before investing.

3. Variable Annuities

ESI makes available, and often recommends, variable annuities to retail investors. A variable annuity is a contract between you and an insurance company. It serves as an investment account that may grow on a tax-deferred basis and includes certain insurance features, such as the ability to turn your account into a stream of periodic payments. You purchase the investment by making either a single purchase payment or a series of purchase payments.

A variable annuity offers a range of investment options, which you typically get to choose (subject to some limitations). The value of your contract will vary depending on the performance of your investment options. The investment options are similar to mutual funds that invest in stocks, bonds, debt instruments, or some combination of the three.

Variable annuities typically include features that make them different from other insurance products and investments. **First**, variable annuities have insurance features. For instance, if you die before the insurance company starts making income payments to you, many contracts guarantee that your beneficiary will receive a specified amount (typically at least the amount of your purchase payments).

Second, variable annuities are tax-deferred. That means federal taxes on income and investment gains do not apply until you make a withdrawal, receive income payments, or a death benefit is paid. Also, transferring assets between your investment options in the contract will not be taxed. However, when taxed you will pay taxes at ordinary income tax rates, as opposed to long term capital gains rates often associated with other types of investment gains.

Third, variable annuities let you receive periodic income payments for a specified period or the rest of your life (or the life of your spouse).

Additionally, like mutual funds (described above), variable annuities offer professional portfolio management over the investment options you chose, as well as diversification. ESI believes that these features make variable annuities an attractive option for many retail investors.

A subset of variable annuities are known as structured, buffer, hybrid, or registered index linked annuities (RILA). These annuities essentially combine two basic types of annuity contracts - fixed indexed and variable. The combination of these annuity components is generally designed for investors who are seeking a more modest performance potential while maintaining contract options to limit or buffer downside risk. The annuities will vary in features, but generally are designed to offer more return potential than a traditional fixed or fixed indexed annuity, while attempting to offer more downside protection than a variable annuity. Usually, investors select a market index and do not chose subaccounts to invest in like traditional variable annuities (however, sometimes subaccounts are an option). Hybrid annuities don't guarantee against the loss of principal or guarantee a profit.

<u>Material Fees and Costs</u>**.** Most variable annuities have the following fees and costs.

*Surrender Charges***:** These charges are only incurred if you surrender all or a portion of your variable annuity within a certain time period (called a “Surrender Period”), and often decline gradually over a period of several years. For example, a 7% charge might apply in the first year after a purchase payment, 6% in the second year, 5% in the third year, and so on. Typically, after six to eight years (but sometimes longer), the surrender charge no longer applies. Often, contracts will allow you to withdraw a portion of your account value (typically about 10%) each year without paying a surrender charge.

> Example: A variable annuity contract is purchased with $100,000. The annuity has a 7% surrender charge in the first year, declining each year thereafter by 1%. In addition, 10% of the annuity value can be withdrawn each year free of surrender charges. In the fourth year, the owner withdraws $50,000. The owner can withdraw $10,000 (10% of contract value, assuming it has not changed due to investment performance) free of surrender charges. A surrender charge of 4%, or $1,600, will be assessed on the other $40,000 withdrawn.

Mortality and Expense fees: These fees are charged by the insurance company issuing the variable annuity to provide the insurance benefits of the contract, such as a death benefit, some of which are described earlier in this document. They are commonly referred to as "M&E fees." They typically range from between 0.5% to 1.5% of the variable annuity's value.

> Example A: A variable annuity has an M&E charge at an annual rate of 1%. If the average account value of the variable annuity during the year is $100,000, the annuity will incur $1,000 in M&E charges that year.

Certain share classes, commonly referred to as "L Share" variable annuities, have shorter surrender periods. However, they also have M&E fees that are higher than other share class options. These higher fees will lower your returns each year, but will give you access to the value of your annuity, without surrender charges, sooner.

> Example B: A variable annuity, an "L Share," has an M&E charge at an annual rate of 1.65%. If the average account value of the variable annuity during the fourth year of the contract is $100,000, the annuity will incur $1,650 in M&E charges that year. However, if the surrender charge lasts for three years, if you withdraw $50,000 in year four, you can withdraw the entire $50,000 without incurring a surrender charge.

Administrative Fees: Some variable annuities also have administrative fees, which can be a flat fee of $25 to $30, or sometimes an asset-based fee ranging from 0.1% to 0.3%, to cover the administrative costs associated with your investment, such as recordkeeping and mailings.

> Example: A variable annuity charges administrative fees at an annual rate of 0.1% of account value. The average account value during the year is $100,000. $100 in administrative fees will be assessed against the annuity.

Subaccount Expenses: As discussed above, variable annuity owners allocate their investments into "subaccounts," which are separately managed investment pools similar to mutual funds. The manager of the subaccount charges fees, including 12b-1 fees, management fees, administrative fees, operating costs, and other asset-based costs. These are typically expressed as an "expense ratio," and generally subaccount expense ratios vary greatly depending upon the type of subaccount selected. A typical expense ratio for a subaccount that invests significantly in equities might be 0.75%.

> Example: A variable annuity has a subaccount option, the XYZ Equity Allocation ("XYZ") that has a .75% expense ratio. The value of the annuity during the year is $100,000, but the average account value of XYZ was only $25,000 (the remaining $75,000 is invested in other subaccounts). 0.75% of XYZ's value, or $187.50, will be deducted from that subaccount. The other subaccounts likely have different expense ratios (and similar fees will be deducted from them, as well).

Other fees may also apply. These may include initial sales loads/charges or fees for transferring part of your account from one investment option to another.

Optional Riders: Variable annuities are often sold with riders, or optional features that can be added to the contract, typically for an additional fee. Below are typical examples of riders.

- Guaranteed lifetime income riders. These riders typically guarantee the payment of a certain level of income for the remainder of the owner's life, regardless of the value of the annuity. Typical charges for such a rider are between 0.4% and 2.2%.
- Living benefit riders. These riders typically provide cash benefits to you prior to your death if you qualify based on a medical condition, such as a terminal illness. Typical charges for such a rider are between 0.65% and 1.5%.
- Guaranteed Minimum Withdrawal Benefit, (GMWB) riders are commonly available for variable annuities. The contract owners can withdraw a maximum percentage of their annuity's benefit base for the lifetime of the annuitant. Annual maximum percentages available for withdrawal vary with contracts and are generally based on the age of the annuitant, but are usually between 4% and 7% of the benefit base. Typically, fees for this rider are between 0.9% and 1.3%.

Additional riders exist and vary from sponsor to sponsor. Not all riders are available on all contracts, and certain eligibility criteria may apply. You should review the prospectus of the variable annuity you are considering, to view all of your options.

Market Value Adjustments (MVA). A Market Value Adjustment (MVA) can be attached to a deferred variable annuity that features fixed interest rate guarantees. An MVA is an interest rate adjustment factor that can cause the actual crediting rates to increase or decrease in response to market conditions. Generally, the MVA will only apply to the amount withdrawn in excess of the free withdrawal provision stated in the contract during the surrender charge period (most annuities will allow free withdrawals of 10% of the accumulation value or the interest earned in the contract). It will only be applied to withdrawals from fixed interest or declared rate accounts. If interest rates are higher at the time of withdrawal than when the contract was purchased, a negative MVA will apply which will decrease the value of your withdrawal. If interest rates are lower at the time of withdrawal than when the contract was purchased, a positive MVA will apply and increase the value of your withdrawal.

Representative Compensation: Variable annuities have several different share classes. The most common share class sold are "B Shares." A different share class, "L Shares," typically have a shorter Surrender Period as compared to a "B Share," however, they typically have higher Mortality and Expense fees and Administrative Fees.

When selling either share class, the representative has different options with respect to how they receive their compensation, generally trading up-front compensation for increased ongoing compensation. For example, the charts below show typical compensation structures for different share classes.

"B Share" Variable Annuities

Compensation Options	Age of Owner	Upfront Compensation	Trailing Compensation
Option A	0-80	7%	0%
Option B	0-80	5%	1% per year (after 3 years)
Option C	0-80	2%	1% per year (after 1 year)

"L Share" Variable Annuities

Compensation Options	Age of Owner	Upfront Compensation	Trailing Compensation
Option A	0-80	5.5%	0% during Surrender Period (1% per year thereafter)
Option B	0-80	4%	1% per year (after 3 years)

The fees and costs described above are typical, but may differ for the particular variable annuity you are purchasing. Additionally, a variable annuity may have numerous different share classes, with characteristics that may or may not resemble the descriptions above to varying degrees. You should review the prospectus delivered to you for specific information regarding your investment.

4. Real Estate Investment Trusts (REITs)

Real estate investment trusts ("REITs") allow individuals to invest in large-scale, income-producing real estate. A REIT is a company that owns and typically operates income-producing real estate or related assets. These may include office buildings, shopping malls, apartments, hotels, resorts, self-storage facilities, warehouses, and mortgages or loans. Unlike other real estate companies, a REIT does not develop real estate properties to resell them. Instead, a REIT buys and develops properties primarily to operate them as part of its own investment portfolio.

ESI offers traded REITs and non-traded REITs. A traded REIT will be purchased in a brokerage account, and can be bought or sold on a daily basis. A non-traded REIT generally must be held by the investor for longer periods of time compared to a traded REIT.

ESI believes that REITS have features that make them attractive options for some retail investors. These include:

- Income production. Because the tax laws generally require REITs to pay at least 90% of their taxable income to investors in the form of dividends, they can be an attractive option for investors seeking income;
- Diversification. Because REITS own and often manage real property, investors choosing REITs over other securities can access real estate markets and reduce their equity exposure; and
- Accessibility. REITs allow people to participate passively in the real estate markets with substantially less money, as compared to a purchase of real property.

Material Fees and Costs. Non-Traded REITs offered by ESI come with the following fees and costs.

Specifically, REITs typically have the following fees: Selling Commissions, Dealer Manager fees, Distribution Fees, Organization and Offering Expense Reimbursements, Acquisition Expense Reimbursements, Acquisition Expense Reimbursements, Operating Expense Reimbursements, and Advisory Fees. These fees are typically deducted from the funds that are invested in the REIT and paid to an entity affiliated with the REIT, such as their dealer manager (the REIT's wholesale broker dealer) and affiliated property manager. Some of these fees, typically Selling Commissions, Dealer Manager Fees and Distribution Fees, are then passed to ESI as compensation, either in whole or in part.

Additionally, REITs have different share classes, which impact the specific fees that you will pay. To illustrate, the chart below shows the fees charged by one of the REITs ESI offers to customers.

Fee	Class A	Class T
Selling Commission	3%	3%
Dealer Manager Fee	55bps	2.5%
Distribution Fee	50bps	1%
Organization and Offering Expense Reimbursement	Up to 1 % gross proceeds	Up to 1% gross proceeds
Acquisition Expense Reimbursement	Allowed	Allowed
Operation Expense Reimbursement	Yes (unspecified)	Yes (unspecified)
Advisory Fee	1% (with performance bonuses which can increase the total fee)	1% (with performance bonuses which can increase the total fee)

5. Interval Funds

An interval fund is a type of closed-end investment company, which in some ways is similar to a mutual fund because it pools money from investors to purchase investments in a portfolio that is professionally managed. However, interval funds have features that make them different from traditional mutual funds as well as other closed-end investment companies.

Specifically, interval funds continuously or periodically offer shares of their investment company for sale, but purchasers typically cannot sell them on an exchange. Rather, the investment company periodically offers to repurchase shares directly from shareholders, often on a quarterly or annual basis. When these offers are made, the investment company only offers to purchase a limited percentage (often between 5 and 25 percent) of all of the outstanding shares of the investment company. As this structure limits a purchaser's ability to sell his or her shares of the interval fund, they are generally considered to be illiquid investments.

Because interval fund managers are less concerned about unexpected redemptions (as compared to open-end mutual funds) they generally have more flexibility to invest in less liquid assets, such as private companies, derivatives, or certain other debt instruments. This can be good for purchasers of interval funds, as the underlying investments may diversify a purchaser's investment holdings. Additionally, interval funds can provide investors access to these investment categories that could otherwise be difficult to obtain by smaller investors. However, this can create risks for investors, as the less liquid assets may be more difficult to sell by interval fund managers, which could result in the managers selling assets at a discount. The illiquid nature of some of the underlying investments may also result in interval fund share values not closely tracking the stock market.

Interval funds also commonly pay distributions to shareholders. Distributions may be funded by investment income, short-term and long-term capital gains, as well as the proceeds of the sale of securities and other investments. While anticipated distributions may be attractive to investors, they should mindful that distributions are not necessarily reflective of total returns, and that some portion of distributions may reflect a return of capital (meaning a portion of the funds someone invested).

<u>Material Fees and Costs.</u> Interval funds offered by ESI usually have the following fees and costs.

Class A shares. When you purchase Class A shares, you are typically assessed a front-end sales charge that is deducted from your initial investment. A typical front-end sales charge, or “load” for A shares is 3%. For example, on a $100 investment in such a fund, $97 would be invested, and $3 would be paid to ESI (who then pays most of the compensation to your representative).

Class C shares are often subject to a “back-end load,” or redemption fees, which is typically 1% of the initial purchase price or the redemption price, whichever is lower, when you accept a fund's offer to repurchase your shares. For example, if an investor purchases $120 worth of an interval fund, and the fund's value drops to $100 when the investor accepts a fund's repurchase offer and redeems all of her investment, the investor will be charged 1% of $100, or $1.

Breakpoint Discounts. Class A shares generally offer volume discounts called breakpoints, which may reduce or eliminate the amount of the front-end sales charge. The following chart depicts the breakpoint schedule for one of the interval funds the Firm offers:

Investment Amount	Front End Load (% of offering price)
Less than $100,000	2%
$100,000 - $249,999.99	1%
$250,000 and over	0%

Institutional Class shares. Institutional class shares are only available in ESI's advisory programs. If purchased, you will not be assessed a front-end sales charge in addition to the advisory fees that you pay (which is typically computed as a percentage of the value of your account).

In addition to the sales charges discussed above, Interval funds also have annual fund operating expenses such as management fees, distribution fees (also known as 12b-1 fees), and interest payments on borrowed funds, and other miscellaneous expenses. To illustrate, the chart below shows the range of fees that one of the interval funds offered by ESI charges.

	Institutional Class Shares	Class A Shares
Management Fees	2.20%	2.20%
Distribution fees (12b-1 fees)	N/A	0.50% to 0.75%
Interest payments on borrowed funds	3.14%	3.14%
Other Expenses	0.02%	0.02%
Total Annual Fund Operating Expenses	**5.36%**	**5.86% to 6.11%**

The fund operating expenses discussed above may be higher or lower than the operating expenses of other interval funds offered by ESI. You can find an interval fund's total annual fund operating expenses, expressed as a percentage of the assets being managed by the fund, in its prospectus. It is important to understand that interval funds' annual operating expenses are generally significantly higher than other investments offered by ESI.

6. Structured CDs

Structured CDs are certificates of deposit with variable returns that are linked to the future performance of a market index. They differ from traditional Certificates of Deposit ("CDs") which are not regulated as securities and typically have fixed interest rates which can be low. Structured CDs are designed to protect against downside market movements at maturity, while providing the opportunity of participation in some, but not all, of the gains of the equities markets.

Typically, downside protection is offered because the issuer of the Structured CD purchases a zero-coupon bond with a face value and duration matching the amount and duration of your investment. At maturity, this bond's face value is designed to ensure that you will receive at least the amount of your investment. Simultaneously, the issuer purchases a call option, which allows the issuer to purchase an option (but not the obligation) to purchase the gains of a market index at the time the Structured CD matures. If the market index has increased, this allows the issuer to exercise the option and realize a gain, which will generate return for your investment.

Typically, Structured CDs have a participation rate. This participation rate means that investors will only participate in a portion of the gains of the market index. The gains the investor does not participate in are retained by the issuer, and the level of participation is typically determined by the cost of purchasing the bond and the price of the option that was purchase.

> Example: A structured CD, tracking the S&P Index purchased for $1,000, has a participation rate of 90% and a 5 year maturity. If after 5 years the S&P Index rose 10%, you would receive $1,090. Specifically, you would receive your investment of $1,000, plus the gains of the market index ($100) reduced by the participation rate to $90.

ESI believes that structured CDs have features that make it an attractive option for some retail investors. These include:

- Risk averse investors. Because of their downside protection, these investments are appropriate for investors who want to preserve capital.
- Investors with a time horizon of less than 10 years. Typically, structured CDs mature between 1 and 7 years. Investors liquidating their investment prior to maturity will likely give up some, and possibly all, of their potential gains, and may lose some of their initial investment.
- People willing to sacrifice returns in exchange for protecting their initial investment.

Material Fees and Costs**.** Most Structured CDs come with the following fees and costs.

The selling commissions are typically paid by the issuer of the investment to ESI, and are generally about 3% to 4%. Additionally, issuers commonly deduct and retain a fee, sometimes called a "structuring fee," of approximately 1% per year.

Additionally, some products have a contingent deferred sales charge, which is a fee assessed if you surrender your Structured CD before its maturity date. This charge can cause you to lose principal. You should read the prospectus of any Structured CD you are considering to understand these charges.

The fees and costs described above are typical, but may differ for the particular Structured CD you are purchasing. You should review the prospectus delivered to you for specific information regarding your investment.

7. Variable Universal Life Insurance

ESI makes available, and sometimes recommends to retail investors, variable universal life insurance. A variable universal life insurance policy is a contract between you and an insurance company. It is intended to meet certain insurance needs, investment goals, and tax planning objectives. It is a policy that pays a specified amount to your family or others (your beneficiaries) upon your death. It also has a cash value that varies according to the amount of premiums you pay, the policy's fees and expenses, and the performance of a menu of investment options similar to mutual funds offered under the policy.

ESI believes that variable universal life insurance has features that make it an attractive option for some retail investors. These include:

- Variable life insurance maintains a guaranteed minimum death benefit as long as the contract remains in force.
- Earnings on the growth in the subaccounts is tax-deferred until withdrawn.
- Variable universal life insurance policies accumulate cash value, subject to the premiums paid and the performance of the underlying securities in the subaccount.
- Premiums can be flexible for investors who do not want to make fixed payments.

The primary reason to purchase variable universal life insurance is because the need for life insurance, and it is not appropriate as a vehicle for short term savings.

Material Fees and Costs**.** Most Variable Universal Life policies come with the following fees and costs.

Mortality and Expense fees. A mortality and expense risk charge is a fee imposed on investors in variable universal life. The fee compensates the insurer for any losses that it might suffer as a result of unexpected events, including the premature death of the insured.

*Premium Taxes***.** Insurance companies incur many taxes related to variable universal life policies, including federal and state taxes, premium taxes, distribution expenses, expenses related to the sale and issuance of the policy (commonly referred to as acquisition expenses), funding the insurance company's reserve account in amounts associated with the policy, and to provide profit to the insurance company. The amount of this fee will vary over time, as well as certain characteristics of the policy holder, such as age, sex, rate class, rate type, rate class multiple, as well as any elected riders. Commonly, Premium Taxes will not exceed 10% of premium, but is often lower.

*Service Fees***.** Insurance companies often charge fees to cover the administrative costs of processing policyholder requests. Often they are fixed dollar amounts of approximately $25 per request, which are sometimes waived.

Partial Surrender Fees. Insurance companies often deduct fees from the surrender amount requested. For example, an insurance company may charge the lesser of $25 or 5% of the amount surrendered.

Asset Charge. The asset charge is deducted monthly and is assessed against the Policy's Accumulated Value. This charge is related to the various Investment Options that are made available under the Policy. The charge generally is .20% - .40%.

*Surrender Charge***.** These are charged if a policy is surrendered or if it lapses. These charges are intended to compensate the insurance company, primarily for underwriting expenses and sales expenses, for policies that remain in force for a relatively short period of time. Generally, these will decline over 15 years and then no longer apply.

Cost of Insurance. Insurance companies charge this fee to provide expected mortality benefits to be paid under the policy. The cost of insurance will vary based on underwriting factors, such as the insured's sex, issue age, underwriting class, the length of time the policy has been in force, among other factors. The rates are based upon the insurance company's expectations as to future mortality, investment earnings, persistency and taxes.

*Optional Riders***.** Variable universal life contracts are also often sold with riders, or optional features that can be added to the contract, typically for an additional fee. Below are typical examples of riders.

- Long term care riders. Based upon meeting certain eligibility requirements related to declining health, these riders pay the owner a monthly benefit while the owner is still alive. These payments will reduce the cash value of the policy. The fee for the Long-Term Care rider is based on the insured's age and risk class. The actual cost is also based on the net amount at risk, which is the difference between the death benefit and the cash value.
- Spousal riders. These riders typically pay a death benefit to a designated beneficiary upon the death of a named spouse on the policy. The fee for the spousal death benefit riders is based on the insured's age and risk class. The actual cost is also based on the net amount at risk, which is the difference between the death benefit and the cash value.
- Accelerated death benefits. These riders typically allow access to the policy's death benefit prior to death if the insured is diagnosed with a terminal illness. Generally, there is no annual fee for the accelerated death benefit rider. In some cases, there is an exercise fee when the rider is elected. That fee will also vary, but could range from 1-8% of the accumulated value.

Additional riders exist, and are offered on some contracts, depending on the product sponsor. You should review the prospectus of the variable annuity you are considering to view all of your options.

Commissions paid to your representative can vary greatly. In many cases, approximately 75% of first year premium will be paid to ESI as a commission, who will then retain a portion and then pay the remainder to your representative. However, there is a wide range of possible compensation, ranging generally from between 50% to in excess of 100% of first year premium. You should consult the prospectus for the policy you are purchasing for more specific information about the commissions for your product.

8. Options

ESI makes options trading available to qualified retail investors through its brokerage platform. Options are contracts giving the owner the right to buy or sell an underlying asset, at a fixed price, on or before a specified future date. They are derivatives, meaning they derive their value from their underlying assets. The underlying assets can include, among other things, stocks, stock indexes, exchange traded funds, fixed income products, foreign currencies, or commodities.

ESI believes that options have features that make them an attractive option for some sophisticated retail investors. These include:

- Options investors are more experienced, and want the flexibility of speculating on the future price of a stock;
- Options trading allows investors to use less money to gain exposure to the movement of a stock's price;
- Options can be used to hedge a position against downward market movement;
- Some options strategies can be used to generate an income stream with limited risk, but somewhat limited upside potential;
- Other option strategies are highly speculative and involve a significant risk of loss.

Material Fees and Costs. Trading options comes with the following fees:

- A $49.95 trading fee;
- A $2.25 contract fee; and
- A $3.50 ESI service fee.

By regulation, these fees are disclosed in an Options Disclosure Document, which will be provided to you if your account is approved to trade options. These fees can change, and if they do, we will provide notice to you.

9. Municipal Bonds and 529 Plans

Municipal bonds (or "Munis" for short) are debt securities issued by states, cities, counties and other governmental entities to fund day-to-day obligations and to finance capital projects such as building schools, highways or sewer systems. By purchasing municipal bonds, you are in effect lending money to the bond issuer in exchange for a promise of regular interest payments, usually semi-annually, and the return of the original investment, or "principal." A municipal bond's maturity date (the date when the issuer of the bond repays the principal) may be years in the future. Short-term bonds mature in one to three years, while long-term bonds won't mature for more than a decade.

Generally, the interest on municipal bonds is exempt from federal income tax. The interest may also be exempt from state and local taxes if you reside in the state where the bond is issued. Bond investors typically seek a steady stream of income payments and, compared to stock investors, may be more risk-averse and more focused on preserving, rather than increasing, wealth. Given the tax benefits, the interest rate for municipal bonds is usually lower than on taxable fixed-income securities such as corporate bonds.

ESI believes that Munis have features that make them an attractive option for some retail investors in certain types of accounts. These include:

- Clients seeking tax free income; and
- Clients willing to sacrifice upside potential for more modest but predictable interest payments.
- Typically, Munis are not used in accounts that already benefit from tax deferred growth (for example, an Individual Retirement Account).

A subset of municipal securities are 529 Plans. A 529 plan is a tax-advantaged savings plan designed to encourage saving for educational costs. 529 plans, legally known as "qualified tuition plans," are sponsored by states, state agencies, or educational institutions and are authorized by Section 529 of the Internal Revenue Code.

All fifty states and the District of Columbia sponsor at least one type of 529 plan. In addition, a group of private colleges and universities sponsor a prepaid tuition plan. 529 plans are tax advantaged since investment earnings in these plans are not subject to federal income tax and typically not subject to state income tax as long as the funds are used for qualified higher education expenses.

Material Fees and Costs. Purchasing a 529 Plan in a brokerage account comes with the following fees and costs:

- A $25 account fee; and
- A $3.50 ESI service fee.

Transaction fees are not charged, but front-end commissions, known as "loads," and trail compensation, known as 12b-1 fees, often do result. To understand these fees better, you should look at this disclosure and how the fees and costs associated with mutual funds are described.

If you purchase a 529 Plan directly from the plan not using a brokerage account, the fees charged may be different. You should consult the fund's prospectus to understand these fees.

The purchase of other Municipal Bonds earn ESI a "mark up," which is a fee added on to the purchase price of the bond you are purchasing that is retained by ESI. These markups are typically between 1% and 5% of the bond's value. When selling a bond prior to maturity, ESI makes money from a "mark down," which pays you slightly less than the bond's value at the time of sale. ESI makes a determination that its markups and mark downs are reasonable, given the various relevant factors, including the size of your order and the price that the same or similar bonds have recently traded at.

10. Fixed Indexed Annuities

Fixed Indexed Annuities ("FIAs") are not securities. However, ESI does sell a number of these products through its registered representatives.

FIAs typically offer a guaranteed interest rate, as well as the offer of interest crediting methods that are based on the performance of one or more securities indices. FIAs often let the purchaser chose one method or the other, or some combination of both.

FIAs typically have a "floor" and will protect purchasers from any loss of their principal (subject to surrender charges, discussed below). However, if an index crediting method is chosen for interest calculation, crediting is typically subject to a "participation rate" and a "cap."

Participation Rate Example: An FIA is purchased with $100,000. An interest crediting method tied to market index is chosen, and it has a "participation rate" of 75%. If the relevant market increases 10% over a year, then 7.5% of the contract's value, or $7,500, will be credited to the FIA. That is because 75% of 10% is 7.5%. However, before interest is credited, a calculation to determine if the cap has been exceeded must be performed.

Cap Example: The same example as above, but the FIA also has a "Cap" of 4%, which is the maximum amount of interest that can be credited, even if the relevant market index exceeds that amount. Although the contract's participation rate results in a potential credit of $7,500, it exceeds $4,000, which is 4% of the FIAs cash value. Accordingly, the contract would be credited with $4,000.

Material Fees and Costs. The following fees and costs are typical of most FIAs.

Surrender Charges: These charges are only incurred if you surrender all or a portion of your FIA within a certain time period (called a "Surrender Period"), and often decline gradually over a period of several years. For example, a 7% charge might apply in the first year after a purchase payment, 6% in the second year, 5% in the third year, and so on. Typically, after six to eight years (but sometimes longer), the surrender charge no longer applies. Often, contracts will allow you to withdraw a portion of your account value (typically about 10%) each year without paying a surrender charge.

> Example: A FIA is purchased with $100,000. The annuity has a 7% surrender charge in the first year, declining each year thereafter by 1%. In addition, 10% of the annuity value can be withdrawn each year free of surrender charges. In the fourth year, the owner withdraws $50,000. The owner can withdraw $10,000 (10% of contract value, assuming it has not changed due to investment performance) free of surrender charges. A surrender charge of 4%, or $1,600, will be assessed on the other $40,000 withdrawn.

Optional Riders: FIAs are often sold with optional riders, or optional features that can be added to the contract, typically for an additional fee. A common rider is a guaranteed lifetime income rider. This rider typically guarantees the payment of a certain level of income for the remainder of the owner's life, regardless of the value of the annuity. Typical charges for such a rider are between .90%**.**

Additional riders exist and vary from product to product. Not all riders are available on all contracts, and certain eligibility criteria may apply. You should review the contract of the FIA you are considering to understand your options and their fees.

Other Fees. FIAs do not have other fees commonly associated with most annuities, such as Mortality and Expense Fees, Administrative Fees or Subaccount Expenses (for a description of these fees, see the section on Variable Annuities, above). However, insurance companies typically make their money on "Interest Rate Spread." Specifically, this is the difference between what an Insurance Company makes as investment profit on the premiums you pay and the amount of interest credited to your FIA.

Withdrawals or partial withdrawals could be subject to market value adjustments, or "MVA." A Market Value Adjustment (MVA) can be attached to a deferred annuity that features fixed interest rate guarantees combined with an interest rate adjustment factor that can cause the actual crediting rates to increase or decrease in response to market conditions. Generally, the MVA will only apply to the amount withdrawn in excess of the free withdrawal provision stated in the contract during the surrender charge period (most annuities will allow free withdrawals of 10% of the accumulation value or the interest earned in the contract). If interest rates are higher at the time of withdrawal than when the contract was purchased, a negative MVA will apply which will decrease the value of your withdrawal. If interest rates are lower at the time of withdrawal than when the contract was purchased, a positive MVA will apply and increase the value of your withdrawal.

Representative Compensation: The charts below shows typical compensation options that are often associated with FIAs.

Compensation Options	Age of Owner	Upfront Compensation	Trailing Compensation
Option A	0-80	7%	0%
Option B	0-80	5.5%	1.25% per year (after 1 year)
Option C	0-80	1.25%	1% per year (after 1 year)

The fees and costs described above are typical, but may differ for the particular FIA you are purchasing. You should ask your registered representative about his or her compensation when they sell a specific FIA.

A portion of the compensation specified above is paid to the registered representative, a portion is paid to the Firm, and the balance is paid to the representative's supervisor. For LSW products, additional compensation (up to 2%) is paid to the representative's supervisor, which may be retained solely by the supervisor, or shared, in whole or in part, with the representative. This creates a conflict of interest for the supervisor and the representative, in that they have a greater incentive to offer LSW products over other carriers' because they receive more compensation. Some carriers pay similar compensation in addition to the amounts reflected in the chart above, which is not paid to the supervisor or the representative. The amount of compensation paid affects the amount available for crediting to contracts. If you have questions about these matters, you should discuss the affects of these issues with your representative.

11. Investments and investment strategies we chose not to offer to you.

There are a few investments and investment strategies that we chose not to offer to you. These include:

"Regulation D Offerings." Regulation D Offerings are securities that are exempt from registration under the federal securities laws. These offerings are typically used by smaller companies in an effort to raise capital. They typically involve significant risk to investors, so ESI has elected not to offer them.

Certain Variable Annuities and REITs**.** ESI reviews numerous variable annuities and REITs, and choses only to offer products that it believes have met high industry standards for long-term performance, superior field support, and reliable back-office support. If ESI has not reviewed a specific variable annuity or REIT, or if it has reviewed the product but has not approved it for sale, we will not offer you that particular product.

Additionally, REITs may be subject to additional qualification requirements and/or limitations, related to your net worth, your annual income, or your status as an accredited investor under the federal securities laws. Additional requirements may apply under state law, based upon your state of residence. Additionally, some variable annuities may not be available to you if you are over a certain age. If you do not meet the applicable requirements for these products, we will not recommend a REIT or a variable annuity to you.

Trading Discretion**.** Trading discretion occurs when you provide authorization for your registered representative to purchase or sell securities on your behalf without express authorization for each transaction. When acting as a registered representative, ESI does not permit discretionary trading. However, when it acts as an investment adviser, it does permit Investment Adviser Representatives to trade with discretion, in accordance with its Form ADV Part 2A, in certain programs, including programs where your investments will be held in an ESI brokerage account.

No-Load Mutual Funds. ESI will not recommend no-load mutual funds when acting as a broker dealer. It does not recommend them because the fee structure does not provide adequate compensation to ESI or its representatives for the services they provide. ESI will allow its customers to purchase them on an unsolicited basis, transfer an existing investment to an ESI brokerage account, and to name ESI as the broker dealer of record for directly held no-load mutual funds. ESI, when it acts as an investment adviser, offers several programs that use no-load funds.

Exchange Traded Funds. ESI will not recommend exchange traded funds ("ETFs") when acting as a broker dealer, because the fee structure does not provide adequate compensation to ESI or its representatives for the services they provide. ESI will allow its customers to purchase them on an unsolicited basis and to transfer an ETF position to an ESI brokerage account. ESI, when it acts as an investment adviser, offers several programs that use ETFs to varying degrees.

Crypto. ESI will not recommend direct investments in cryptocurrency, or ETFs or other securities which primarily hold cryptocurrency ("Crypto") in its brokerage accounts. Additionally, when ESI acts as an investment adviser, its Investment Advisory Representatives will not recommend Crypto or purchase it in your account if they manage it on a discretionary basis. However, third-party managers with investment authority over your investment advisory account may choose to purchase Crypto, and you may purchase Crypto in a brokerage account on an unsolicited basis.

Penny Stocks. ESI does not allow, on a solicited or an unsolicited basis, the purchase of "Penny Stocks." Generally, the SEC defines Penny Stocks as securities issued by small companies that typically trade at or below $5 a share. They will not include securities traded on a nationally recognized securities exchange or with NASDAQ. ESI will permit investors to sell Penny Stock positions as an accommodation, and to transfer existing Penny Stock positions to the Firm.

MATERIAL FACTS RELATING TO CONFLICTS OF INTEREST THAT ARE ASSOCIATED WITH OUR RECOMMENDATIONS.

1. ESI'S RELATIONSHIP WITH NATIONAL LIFE GROUP

ESI is a member of the National Life Group, a trade name of a diversified family of financial services companies offering life insurance, annuities and investment products. Most of ESI's representatives are also life insurance agents of two insurance company members of the National Life Group and affiliates of ESI: National Life Insurance Company ("National Life"), and Life Insurance Company of the Southwest ("LSW"). ESI is under common control with NL Capital, Inc. ("NLCap"), a registered investment adviser which primarily provides asset management services to National Life Group.

Among other products, LSW offers fixed annuity products. Many of ESI's representatives are appointed with LSW to sell fixed (non-securities) products. ESI does not sell LSW's fixed annuities, and does not receive a portion of any commission generated by a Representative's sale of these products. However, in certain circumstances, we review transactions in LSW's products by our representatives to ensure that securities recommendations (sell recommendations) made in connection with their purchase are in your best interest. In addition, because ESI does not retain a portion of the commissions, LSW pays a higher percentage of commissions to our Representatives, as compared to another carrier's fixed annuity products sold through ESI, where ESI does retain a portion of the commission.

National Life underwrites fixed and variable insurance products. Life of the Southwest ("LSW") is an underwriter of indexed annuity products. National Life, LSW and/or ESI pay bonuses, employee-type benefits, and other compensation to ESI representatives for sales of National Life and LSW fixed and/or variable products. ESI recognizes revenue sharing from the sale of National Life and LSW products, which offsets expenses to ESI for such benefit programs and other expenses.

ESI and its affiliates receive, in the aggregate, more revenue in connection with the sale of affiliated products than with unaffiliated products. This additional revenue often comes in the form of shared revenue based on assets under management, administrative, distribution, and/or other fees for services provided by affiliates of ESI in support of affiliated products. Thus, ESI has an incentive to offer affiliated products over unaffiliated products.

National Life provides space and certain other services to ESI, but these costs associated with ESI's occupancy of its physical space are allocated to ESI. ESI also acts as the distributor of variable insurance products underwritten and issued by National Life.

In providing asset management services to National Life, NLCap often invests in fixed income securities, stocks and real estate. Although ESI can offer the same or similar types of investments, the investment objectives of National Life are usually different than a typical retail investor. Accordingly, the decisions of NLCap and its portfolio managers are made independently from ESI's assessment of the products approved for its platform, as well as the recommendations ESI make to retail investors.

2. STRATEGIC PARTNERS, REVENUE SHARING, AND OTHER THIRD-PARTY COMPENSATION PAID TO ESI

A. Payments from Product Sponsors

ESI has selected a group of mutual fund, unit investment trust, variable annuity, real estate investment trust and retirement services platform providers that the Firm believes have met high industry standards for long-term performance, superior field support, and reliable back-office support. This group of companies has greater access to our representatives to provide training and other educational opportunities to help serve our customers better. This program is called the Strategic Partners Program ("Program") and it includes unaffiliated product sponsors.

These partners make additional payments (referred to as "marketing support" or "revenue sharing") to ESI to participate in this program. These payments are used by ESI as general financial support to offset the costs of product management support and compliance. Marketing support payments are made to ESI in addition to commissions, annual service fees, and other fees and expenses disclosed in the product prospectus, and are paid out of the sponsor or affiliate's assets, not from the fund or product assets.

It is important to understand that these payments are made to ESI and are not shared with any representative who sells these products. Depending on the product sponsor, these payments can be a percentage of gross sales, a flat annual amount, or a combination of the two. Because these payments are not shared with representatives, it is a conflict only at the Firm level but can create an incentive for the Firm to promote products for which we receive revenue sharing versus others which do not.

For mutual funds recommended to retail investors, strategic partners pay ESI approximately 15 basis points (0.15%) of the gross amount of sales, and approximately 5 basis points (0.05%) on the average daily balance of assets. For example, for a $10,000 transaction in one of these funds, ESI receives a one-time payment of $15, and a $5 annual payment for the period during which the assets remain at the company. Additionally, when interval funds are recommended to retail investors, strategic partners pay ESI approximately 3 basis points (0.03%) of the gross amount of sales. For example, for a $10,000 purchase of an interval fund, ESI receives a one-time payment of $3.

Revenue sharing agreements with variable annuity offerors typically pay 25 basis points (0.25%) of the gross amount of the sale. For example, on a $10,000 transaction with a participating company, ESI receives a one-time payment of $25.

Revenue sharing agreements with the direct participation program offeror provide ESI 50 basis points (0.50%) of the gross amount of the sale. For example, on a $100,000 transaction with a participating company, ESI would receive a one-time payment of $500.

These payments create a conflict of interest in the form of an additional financial benefit to ESI in connection with the sale of products from these sponsors. To learn specifically which third parties provide these payments to ESI, you should go to www.equity-services.com, and view the document entitled "Important Information about Revenue Sharing Arrangements."

B. Payments from NFS (And Funds on its Platform)

NFS offers a "No Transaction Fee" list of mutual funds, under which mutual fund offerors pay a participation fee to NFS. NFS shares a portion of this participation fee with ESI. This fee is not directly shared with any representative who sells these products. Effective June 30, 2020, ESI no longer recommends NTF funds in brokerage accounts, but this program is still in use with certain ESI investment advisory programs. If you use one of these programs, additional disclosures will be provided to you.

ESI participates in a program offered by NFS in connection with its "Money Market Sweep Funds." The purpose of a Money Market Sweep program is to put uninvested cash in brokerage accounts to work by investing short term, highly liquid investments, readily convertible to known amounts of cash, and subjected to relatively insignificant risk of change in value. ESI uses the Fidelity Government Cash Reserves Fund (ticker: FDRXX) as the default sweep money market fund for retirement accounts. All other account types default to the Fidelity Government Money Market Fund (ticker: SPAXX). These funds do not make additional revenue payments, commonly referred to as "revenue sharing", to ESI.

NFS offers other money market fund options on its trading platform which do participate in revenue sharing. These funds are Fidelity funds, and Fidelity is affiliated with NFS. ESI does not use such funds for clients' default sweep money market accounts. However, these funds remain available on the platform for you to choose, if you wish. If certain asset levels are achieved in these funds, NFS will make additional payments (revenue sharing) generally between 0.10% and 0.50%, to ESI. These additional payments, if made, will not be shared with the Representative. Such payments are described in the specific fund's prospectus.

Some Funds in the Portfolio, but not all, have 12b-1 fees which pay a fee of 0.25% to 0.50% of annual assets under management. This fee may be suspended by Fidelity or a fund's distributor if charging it would create a negative yield. If charged, the fee is paid to ESI, who then pays most of the fee to its Representatives.

To remove a conflict of interest for ESI and its Representatives, the default core money market funds used by ESI in brokerage accounts do not have 12b-1 fee revenue. NFS, however, offers other money market funds that do pay 12b-1 fees. While neither ESI nor its representatives recommend using money market funds that pay 12b-1 fees, such funds remain available to you on the platform.

3. COMPENSATION FOR YOUR REPRESENTATIVE

A substantial portion of ESI's revenue is paid in the form of commissions that result from the sales of securities products. Your representative earns a commission when you purchase a brokerage product through him or her. Mutual funds, general securities, REITs, structured CDs, variable annuity products, and variable universal life insurance products pay commissions to ESI, who then pays most of the compensation to your representative, as a percentage of the amount invested.

When ESI receives commissions after the sale of a brokerage product, it pays the same percentage of that commission to the representative, regardless of the product he or she sold to you. However, as is discussed above, certain products pay more commissions to ESI than others, and certain product types (such as mutual funds and variable annuities) may assign different commission schedules to different share classes available within the same product. This results in the possibility that ESI and your representative will make more money when your representative recommends one product to you versus an alternative product, or one share class to you over an alternative share class. We address these conflicts by maintaining policies and procedures to ensure that the products we recommend are suitable for you, and by disclosing our compensation to you so you can make an informed decision.

Additionally, brokerage products often pay more up-front compensation than advisory fees on investment advisory programs. Although an advisory program may pay more to your representative over time, a representative that prefers higher initial compensation may be incented to recommend a brokerage product to you.

Additionally, different product issuers may pay more or less compensation within a product type. For example, one issuer of a variable annuity may pay a 7.5% up-font commission, and another issuer of a similar variable annuity may pay a 7% up-front commission. Likewise, one mutual fund may pay a 5.75% front-end load, whereas another mutual fund may pay a 5% front-end load for a similar mutual fund. Additionally, one mutual fund may offer a share class with a 0.25% 12b-1 fee in a brokerage account, whereas you may be eligible for a different share class (possibly in an advisory account) with no 12b-1 fee. In addition, our Registered Representatives make more money when they recommend that you transfer your investments to our Firm from another financial institution, for example, when they recommend an IRA Rollover. Whenever the representative or the Firm makes money for one recommendation over another, it presents a conflict of interest that you should be aware of.

Furthermore, before being paid to the representative, commissions received by ESI are run through a "grid". The grid reflects a percentage payout, and in general, when a representative generates more commissions and advisory fees (in advisory accounts) for ESI, ESI recommends that the representative receives a higher percentage of the commissions for all of his or her business. The specific payouts that a representative receives is subject to an agreement between the representative and his or her field supervisor. Any higher payout is paid prospectively on new business, and not retroactively on previous business. This creates additional incentive for your representative to sell you a product or service, because if certain thresholds are met, it will increase his or her compensation on future business with other customers.

Additionally, advisory accounts tend to pay the representative less upfront compensation, but charge a recurring annual fee that is a percentage of assets under management. Broker dealer products tend to pay more upfront compensation at the time of sale, and significantly less ongoing compensation in the years following the purchase. Accordingly, if you intend to hold your investments for a long period of time, a representative has a financial incentive to recommend to you an advisory program, as it will pay more compensation to him or her over time. Conversely, if you intend to hold your investment for a shorter period of time, your representative has a financial incentive to recommend a brokerage product to you, as there will be more opportunities to earn transactional based compensation. To mitigate this confit, ESI has policies and procedures to ensure that recommendations made to you are appropriate, which includes both pre-transaction and post-transaction reviews of recommendations.

ESI and its representatives can face conflicts of interest when providing services to retirement accounts. This occurs when a representative recommends that you transfer your retirement account from a different financial institution to our Firm, because doing so will result in the Firm and the representative receiving compensation that we would not otherwise receive. Conflicts of interest can also arise with existing customers, when a representative recommends a new type of account that has a different compensation structure that will increase compensation. For example, this could occur if a representative recommends transferring assets in a brokerage account (which generates compensation when a transaction is made) to an advisory account (which charges an annual fee for ongoing management). These conflicts can arise when a representative recommends taking money from a qualified plan and doing an IRA rollover; recommends that someone transfer assets from an IRA to a qualified plan; recommends the transfer of an IRA account to a new IRA; recommends that a qualified plan transfer assets to a new investment provider; or recommends that an IRA change the type of account being used (such as recommending that a commission-based account be changed to a fee-based account).

Marketing and Sales Support

In addition to the revenue sharing payments described above, product sponsors may make other payments to ESI intended to reimburse the Firm's representatives for marketing expenses, such as client seminars, marketing materials, etc. Marketing reimbursements from broker/dealer sponsors and third-party asset managers are directed to ESI and subsequently paid by ESI to its representatives. Product sponsors and investment advisers may incur expense and/or provide reimbursement for educational and training programs. These educational and training programs may be held at an off-site location, and product sponsors may reimburse a Registered Representative's expenses for travel, lodging and meals. Additionally, product sponsors may provide ordinary and usual business entertainment to ESI's registered representatives (such as an occasional meal, sporting event, theatre production or something comparable) which ESI permits, as long as the entertainment is not so lavish or frequent that it raises questions of propriety. Additionally, product sponsors may provide promotional, logo's items to registered representatives which do not exceed $75 in value.

For broker/dealer product sponsors, these marketing support, educational, and training program payments are paid out of the sponsor or affiliate's assets, not from the fund or product assets, and are in addition to the sales charges, 12b-1 fees, and other fees and expenses disclosed in the prospectus and/or statement of additional information, each of which are available on request from the sponsor.

ESI and its affiliates also contribute amounts to various non-cash and cash incentives paid to ESI's advisory representatives based on the achievement of specified sales goals for securities, including (1) sponsoring sales contests and/or promotions in which participants receive awards or incentives such as travel, merchandise, computer hardware and/or software; (2) paying for occasional meals, lodging and/or entertainment; (3) making cash payments in lieu of business expense reimbursements; (4) making and forgiving business-related loans; (5) cash bonuses and/or; (6) employee benefits, such as health insurance, Social Security contributions, etc.

Hiring Practices and Business Development

It is not unusual for registered representatives to change their broker-dealer affiliation at some point during their career. When this happens, ESI offers some representatives a forgivable loan to assist them with their transition from their previous firm to ESI. Existing representatives, from time to time, may receive a forgivable loan, at the Firm's discretion, to assist in expanding their business. In either instance, the purpose of the loan is to provide the representative, whether existing or transitioning, the capital necessary to continue running their business, for a period of time, until they complete the transition of their registrations, advertising materials, and existing business to ESI or otherwise need the additional capital to expand their existing practice. To protect the Firm's interest in the loan, the debt can be partially, or even fully, forgiven depending upon achieving certain levels of production over a multi-year period (typically 5 years, but sometimes longer). Consequently, forgivable loans present a conflict of interest for the representative in that they are incented to generate sales to avoid repaying a portion or all of the loan with an out-of-pocket cash repayment.

ESI provides compensation to certain individuals whose responsibilities include the recruitment and training of registered representatives to the Firm. Sometimes recruiters are paid a fee based on a recruit's production prior to joining the Firm, in which case the compensation will not vary based on their future production. Sometimes incentives are based on the level of production and tenure of newly hired representatives, are paid directly to the managers and are not shared with the registered representatives. Therefore, these payments create a conflict of interest for the Firm which could impact recommendations made to you, as increased levels of production increase recruiting compensation paid to sales managers, or increase the Firm's profits to offset the compensation paid to recruiters. The Firm mitigates these conflicts through its regular business review and approval process to ensure representatives' securities recommendations and sales are compliant with industry rules and regulations.

Representatives often engage in other business practices - such as insurance sales, accounting practices, legal work, advisory business or other completely non-securities related activities - which are outside the purview of the broker-dealer's supervision. Such activities are commonly referred to as outside business activities (“OBAs”). Some OBAs can create a conflict of interest for the representative, if they are incentivized to use their position as a financial professional to offer products or services that generate revenue to them, but which are not offered through or by ESI. To learn what OBAs your representative is involved in, you can ask him or her, or go to brokercheck.finra.org and look up your representative by his or her name.

When a new representative joins ESI, he or she may have sold a client a product that ESI does not offer. This will prevent the representative from providing advice, or from being paid trailing compensation, on this product. This creates an incentive for the representative to replace your old product with one that ESI offers, because it will create new compensation for the representative.