



# Best Interest Client Disclosure Guide

January 28, 2022

## Important Notice:

The information included in this Guide describes the services that we would expect to provide to you with respect to your brokerage account. The Guide is not intended as, and does not constitute, an agreement for services from the firm, and it does not create a contractual relationship or provide any type of guarantee with respect to the pricing of any services. Future services would be provided in consultation with you, and they would be subject to your cooperation, and reporting of timely and accurate information to us.

**KIS does not provide legal or tax advice.**

Investment products are offered through Key Investment Services LLC (KIS), member FINRA/SIPC and SEC-registered investment advisor. Insurance products are offered through KeyCorp Insurance Agency USA, Inc. (KIA). KIS and KIA are affiliated with KeyBank National Association (KeyBank). Investment and insurance products made available through KIS and KIA are:

**NOT FDIC INSURED • NOT BANK GUARANTEED • MAY LOSE VALUE • NOT A DEPOSIT •  
NOT INSURED BY ANY FEDERAL OR STATE GOVERNMENT AGENCY**

KIS, KIA and KeyBank are separate entities, and when you buy or sell securities and insurance products you are doing business with KIS and/or KIA, and not KeyBank.

# Table of Contents

I.	Introduction: Guide to Fees and Services .....	3
II.	Description of Services .....	3
	Capacity .....	3
	Investment Philosophy .....	4
III.	Best Interest Standard .....	4
	Important Information for Retirement Plan Investors Holding Accounts at KIS .....	5
IV.	Compensation for Brokerage Services .....	6
	Equities (Stocks) .....	6
	Mutual Funds .....	6
	Exchange Traded Funds (ETFs) .....	7
	Variable Annuities and Life Insurance .....	7
	Unit Investment Trusts (UITs) .....	9
	Fixed Income Securities (Bonds) .....	10
	Non-Securities Investments .....	10
V.	Compensation Involving Third Parties .....	10
	Compensation Paid to Pershing by You .....	11
	Compensation Paid to Pershing by Third Parties .....	11
VI.	Conflicts of Interest .....	12
	Conflicts for Both KIS and Your Financial Professional .....	13
	Conflicts for KIS .....	15
	Mitigation Measures .....	16
VII.	Further Information .....	17

## I. Introduction: Guide to Fees and Services

We are providing this Best Interest Client Guide (“Guide”) to you as a client of our brokerage services to satisfy the United States Securities and Exchange Commission’s (SEC) Regulation Best Interest. This disclosure addresses the scope and terms of our relationship with you, including the capacity in which we are acting, a brief description of services provided to you, any material limitations on our services, the fees and costs associated with your holdings, accounts, and transactions, sources of compensation received and expected to be received by us or our affiliates, and the related conflicts of interest that exist for us and our financial professionals.

The terms “customer,” “you,” and “your” are used throughout this document to refer to the person(s) who engage(s) us for the services described herein. “KIS,” “we,” “our,” and “us” refer to Key Investment Services LLC (“KIS”) together with our affiliates, including but not limited to, KeyBank National Association (“KeyBank”) and our agents with respect to any services provided by those agents. “Affiliate” means any entity that is controlled by, controls or is under common control with KIS. Each affiliate is a separate legal entity, none of which is responsible for the obligations of the other. “Financial professional” means the KIS registered representative assigned to your account.

## II. Description of Services

We are registered with the SEC as both a broker-dealer and an investment adviser. Our brokerage commissions and investment advisory services fees differ, and it is important for you to understand these differences. Free and simple tools are available for you to research firms and financial professionals at [www.investor.gov/crs](http://www.investor.gov/crs), which also provides educational materials about broker-dealers, investment advisers, and investing.

Depending on your needs and your investment objectives, we may assist you with brokerage services, investment advisory services or both. There are important differences between brokerage and advisory services, including their costs, the services we provide, and the rules that govern them. You should carefully consider these differences when deciding which type, or combination of types, of services and accounts are right for you. Information regarding the differences between our brokerage and advisory services is also available in our Form CRS Customer Relationship Summary disclosure, which is available at [www.key.com/kisregbi](http://www.key.com/kisregbi).

### Capacity

All recommendations made by your financial professional regarding your broker-dealer account (your brokerage account) will be made in a broker-dealer capacity, and all recommendations regarding the account established for our advisory programs will be made in an advisory capacity.

In our capacity as a broker-dealer, we can recommend and effect securities transactions for you, including buying and selling investments that can be held in your brokerage account. All of our accounts are held with Pershing LLC (“Pershing”), our clearing firm. We offer different options or account types for your brokerage account, including retirement accounts (e.g., IRAs) and some accounts held directly with the issuer of the securities purchased (sometimes referred to as directly held accounts – e.g., college savings plans, annuities, life insurance). Any recommendations we make must be in your best interest as discussed later in Section III, Best Interest Standard.

As an investment adviser, we provide investment advice to you for a fee, including wrap programs and separately managed account programs. When we act in our capacity as an investment adviser, we will do so pursuant to a written agreement with you that sets forth the investment advisory relationship and our obligations to you. When we act as an investment adviser to you, we are generally considered to have a fiduciary relationship with you under the Investment Advisers Act of 1940, which requires that we owe you a duty of care and a duty of loyalty.

You direct all trading in your brokerage account. If we provide brokerage services to you, we charge commissions and other related fees to each account. Commissions and other account fees are direct compensation received by us.

We may on a recommended basis, and upon your order, invest in or redeem securities products such as variable annuities, mutual funds, and certain other securities products described below for your account as part of our brokerage services. We may also on a recommended basis, and upon your order, invest in or redeem non-securities products such as certificates of deposit and fixed annuities in your brokerage account. Those transactions will either be made in your brokerage account or will be made directly with the mutual fund company, annuity issuer or issuing bank.

We do not recommend specific equity trades in brokerage accounts. We have a limited product menu and some of our financial professionals may, especially if you deal with a licensed banker, not be able to sell all the products on that menu. You can find our menu of products at [www.key.com/kisregbi](http://www.key.com/kisregbi) or you may obtain a copy from your financial professional. Due to these limitations, this means that our financial professionals are limited to recommending only those investments that we authorize them to offer. This is a material limitation on the securities or investment strategies that our financial professionals may recommend to you. In addition, not all of our financial professionals can offer the full range of investments and services that we offer, which is a material limitation on the securities or investment strategies that these financial professionals may recommend to you. You should discuss any such limitations with your financial professional. If you are dealing with a licensed banker, you will receive an addendum to this guide. You may research your financial professional's experience and licenses on the Financial Industry Regulatory Authority's ("FINRA") BrokerCheck website at [www.brokercheck.finra.org](http://www.brokercheck.finra.org).

We do not provide discretionary investment services, where our broker invests without your prior order, to brokerage accounts. This means that we cannot buy or sell investments in your brokerage account without first obtaining your consent. Our financial professionals may recommend investments to you, but you are responsible for making the decision whether to purchase or sell investments, and we will only do so when specifically directed by you.

In addition to these limitations, we also do not monitor your account after effecting a securities transaction for you, including those investments our financial professionals recommend. This is a material limitation on our services and the services of our financial professionals.

### Investment Philosophy

While we will take reasonable care in developing and making recommendations to you, securities involve risk, and you may lose money. There is no guarantee that you will meet your investment goals, or that our recommended investment strategy will perform as anticipated. Please consult any available offering documents for any security we recommend for a discussion of risks associated with the product. We can provide those documents to you or help you to find them.

Our current commission practices, and applicable fees and costs, are described below.

## III. Best Interest Standard

We are required to make investment recommendations that are in your best interest.

We require our financial professionals to have a reasonable basis, considering the potential risks, rewards, and costs associated with a recommendation, to believe that each recommendation made to a retail customer is in the retail customer's best interest, and does not place our interest ahead of the interest of the retail customer at the time the recommendation is made.

In determining whether our financial professional's recommendation is in your best interest, we consider your individual investment profile. The information in your investment profile includes, but is not limited to, your age, other investments, financial situation and needs, tax status, investment

objectives, investment experience, investment time horizon, liquidity needs, risk tolerance, and other information that you may disclose to us or our financial professional in connection with a recommendation.

## Important Information for Retirement Plan Investors Holding Accounts at KIS

This Guide in conjunction with other documents and disclosures we provide to retirement plan investors is intended to meet the disclosure requirements of the US Department of Labor's ("DOL") regulations under Section 408(b)(2) of the Employee Retirement Income Security Act of 1974 ("ERISA"), as amended. Effective January 31, 2022, for purposes of complying with the DOL's Prohibited Transaction Exemption 2020-02 ("PTE 2020-02") where applicable, KIS provides the following acknowledgment to you.

When we provide investment advice to you regarding your retirement accounts (retirement plans, IRAs, IRA rollovers), we are fiduciaries within the meaning of Title I of ERISA and/or the Internal Revenue Code, as applicable, which are laws governing retirement accounts. The way we make money creates certain conflicts with your interests, so we will be operating under PTE 2020-02, where applicable, a special rule that requires us to act in your best interest and not put our interest ahead of yours.

Under PTE 2020-02, when providing individualized investment advice to retirement accounts, we must also:

- Meet a professional standard of care (give prudent advice);
- Not put our financial interests ahead of yours (give loyal advice);
- Avoid misleading statements about our conflicts of interest, fees and investments;
- Follow policies and procedures designed to ensure that we give advice that is in your best interest;
- Charge no more than is reasonable for our services; and
- Give you basic information about our conflicts of interest.

### **Limitations**

The retirement laws limit the types of products and services we can offer in your retirement account.

This fiduciary acknowledgment does not create an ongoing duty to monitor your accounts or create or modify a contractual obligation or fiduciary status under state law. Not all services we provide to your retirement account(s) or interactions with you are subject to the provisions above and Exclusions include:

- Communications consisting of general information and education about the financial markets, asset allocations, financial planning illustrations and scenarios or the advantages and risks of particular investments. This also includes general information and educational materials we may provide regarding options and alternatives that should be considered when deciding whether to roll over or transfer retirement account assets to KIS;
- Recommendations we provide with respect to accounts that are not retirement accounts (this includes taxable accounts);
- Transactions you enter into that are unsolicited or self-directed (i.e., where KIS does not provide a recommendation);
- Recommendations that are not fiduciary "investment advice" as defined by DOL regulation (i.e., investment advice for a fee or other compensation rendered on a regular basis pursuant to a mutual understanding that such advice will serve as a primary basis for your investment decision, and that will be individualized to the particular needs of your IRA or plan account); and
- Recommendations that you execute at another financial institution.

If your plan participates in an investment advisory program with KIS, please refer to the applicable Form ADV disclosures at [www.key.com/kisregbi](http://www.key.com/kisregbi) and to our contract with you.

## IV. Compensation for Brokerage Services

We may receive direct and indirect compensation in connection with your securities transactions. Direct compensation is taken directly from you or your account, and includes commissions and mutual fund sales charges. Indirect compensation is compensation paid other than directly from you or your account and may impact the value of the associated investment in your account, and includes ongoing fees and costs such as 12b-1 fees or mutual fund management fees. The sections below describe the direct and indirect compensation that we receive in connection with various investments that may be available to you in connection with our services provided to accounts. In many cases, the descriptions that follow refer to a prospectus or offering documents, which provide more detailed information about the fees and costs incurred by you, and which you may access by contacting your financial professional. In general, the compensation will be passed on to us and a portion of this compensation will be passed along to your financial professional. Do keep in mind that payment rates and total payment amounts will vary from product provider to product provider. Ask your financial professional for the rates and amounts applicable to your purchase, sale or redemption.

In addition to the commissions or costs associated with purchase and sale transactions, you may incur various account administrative fees depending upon your account activity, such as account maintenance fees, account transfer fees, and account termination fees. Unlike the transaction-based fees described below, the fees associated with your account are typically paid annually, although some account-based fees are associated with specific transactions. Detail on these fees can be found in our Investment Account Fee Schedule available at [www.key.com/kisregbi](http://www.key.com/kisregbi). We may change fees and waiver requirements from time to time.

### Equities (Stocks)

Commissions on transactions with stock, rights, and warrants are received as direct compensation, and vary depending on the value of the trade. You can ask your financial professional prior to placing a trade for the commission that will be payable on any particular trade. After placing the trade, you will receive a confirmation which contains the amount you paid for each trade. Our commission schedule is detailed in our Investment Account Fee Schedule available at [www.key.com/kisregbi](http://www.key.com/kisregbi).

### Mutual Funds

We currently make available individual mutual funds from over 250 fund families varying in share class structure and investment style. A list of these fund families is available at [www.key.com/kisregbi](http://www.key.com/kisregbi). Your financial professional is able to offer recommendations to you in a specific subset of those fund families. If you invest in mutual funds, we will receive direct and indirect compensation in connection with such mutual fund investments, as described below.

Mutual funds are sold in classes each of which has a different compensation scheme attached to it. Commissions, trails and total payment amounts paid to us vary by share class and vary from fund family to fund family and from fund to fund. We receive direct and indirect compensation for these sales.

#### **Direct Compensation**

Class A shares normally only pay up-front direct charges which are deducted from your investment. Class A shares have sales charges that are typically about 5.75% (which would be \$575 if you invest \$10,000). KIS typically would receive 5.00% (\$500) and the mutual fund or variable annuity fund distributor would receive 0.75% (\$75). The sales charge is deducted from the amount you invest.

Class B and C shares have different sales charges. For Class B shares and Class C shares, KIS receives a commission from the distributor. A typical commission would be 4.00% (\$400 on a \$10,000

investment) on Class B shares and 1.00% annually (\$100 on a \$10,000 investment) on Class C shares. The distributor usually repays itself for commissions from any charge that you pay when you sell or redeem the fund (called a contingent deferred sales charge) and from 12b-1 fees that the distributor receives. That is, the sales charge or “load” is taken from the investment when you sell it.

### **Indirect Compensation**

Ongoing Fees and Expenses (12b-1/Shareholder Service Fees). Mutual funds typically also deduct other ongoing fees and expenses, such as management fees, 12b-1 fees, and shareholder servicing fees, from fund assets. These ongoing fees and expenses are typically used to pay for the mutual fund’s continued annual operating expenses (these ongoing fees are sometimes referred to as the mutual fund’s “expense ratio”). The 12b-1 fees, also known as trails, are paid by the mutual fund and paid to us out of fund assets, under a distribution and servicing arrangement, to finance distribution activities intended primarily to result in the sale of additional shares of the mutual fund and include marketing and advertising expenses. Shareholder servicing fees are paid to respond to investor inquiries and provide investors with information about their investments.

These ongoing fees and expenses are asset-based fees charged by the mutual fund family. You pay these fees and expenses indirectly because they are deducted from your assets on an ongoing basis. The 12b-1 and shareholder servicing fees range from 0.00% to 1.00%, but the majority of these fees are under 0.85%. In addition, more information about the mutual fund’s overall expense ratio is available in the fund’s prospectus, which is available on each fund company’s website or through your financial professional.

Revenue Sharing. There are indirect fees and costs assessed by mutual funds and KIS may receive a portion of these fees, generally referred to as third-party payments or revenue sharing. These payments are a conflict of interest, and this conflict is discussed more fully below in Section VI, Conflicts of Interest.

### **Exchange Traded Funds (ETFs)**

We sell ETFs, which are investment funds that are listed for trading on a national securities exchange and can be bought and sold in equity trading markets. Shares in the ETF represent an interest in a portfolio of securities. These funds trade on an exchange, and we receive commissions similar to that paid for equities.

ETFs also deduct ongoing fees and expenses, such as management fees, from ETF assets. These ongoing fees and expenses are typically charged annually as a percentage of your assets. You pay these fees and expenses indirectly because they are deducted from your assets on an ongoing basis.

### **Variable Annuities and Life Insurance**

We sell variable annuities and variable life insurance.

#### **Variable Annuities**

KIS sells variable annuity contracts to its clients. A variable annuity is an insurance product where your premium payment contributed to the contract is invested in separate accounts containing mutual funds and other investment options. The value of your investment, which is typically referred to as your “cash value,” will fluctuate as the values of the underlying investments increase or decrease.

Under arrangements with insurance companies, we receive commissions from the insurance companies for the sale of annuities, as well as trail commissions (commission paid to us and your financial professional on an established periodic basis post-sale provided that your funds remain invested in the product for a specified time), and they are considered indirect compensation. Commissions and trails paid to us vary by share class and vary by insurance carrier. While you do not pay this commission directly, the insurer factors this commission into the product’s fees and costs. Within variable annuities there are usually multiple commission options a financial professional can

select. The annual fees and charges on the contract that will be paid in the aggregate are not affected by the commission option selected by your financial professional. In general, the greater the commission paid, the lower the trail; and the lower the commission, the greater the trail.

For all currently offered variable annuities, commission options range from 0.75% to 8.00%, with us normally receiving 4.00 % for variable annuities, while trail commission options range from 0.00% (for those who do not offer such trails) to 1.25%, with us normally receiving 0.20%.

In addition, certain annuity issuers charge a fee for withdrawals during the first years of a deferred annuity contract. Such fees range from 0.00% to 9.00% and last for up to seven years. Often the percentage is reduced each year that you hold the annuity. These are disclosed to you at the time of purchase. Neither KIS nor your financial professional receive any portion of these fees.

KIS may receive 12b-1/shareholder servicing fees in addition to the commission stated above being annual payments equal to .0025 multiplied by the market value of the separate accounts in certain variable annuity contracts.

There are also added contractual guarantees, called riders, which add enhanced contractual protections to the contract. For example, a customer can purchase an income rider which enhances the base on which payments to the customer are calculated or a death benefit rider which enhances the death benefit payable under the contract. These riders add to the cost of the contract, typically around 0.93%.

### **Variable Life Insurance**

KIS sells variable life insurance and variable universal life insurance (collectively variable life insurance). Variable life insurance contracts allow a client to invest in underlying funds while still having a specific death benefit. KIS has relationships with third party brokerage general agencies including Valmark Financial Group and its affiliates Executive Insurance Agency and Valmark Securities, Inc. (collectively Valmark), E-Life Brokerage, LLC and its affiliate The Leader's Group (collectively E-Life), Highland Capital Brokerage, Inc. and its affiliate NFP Securities, Inc. (collectively Highland), and COVR, Inc. These general agencies assist KIS by providing access to multiple insurer's products, providing underwriting and case management support, along with other administrative services. KIS receives compensation from the general agent. KIS and the general agent also split commissions payable on product sales. This creates a conflict of interest in terms of using one general agent's services over another. For further information on additional compensation from the various general agents please go to [www.key.com/kisreqbi](http://www.key.com/kisreqbi) or ask your financial professional.

When you purchase a variable life insurance policy from KIS, KIS receives commissions up to 112.50% of the first-year target premium, up to 4.00% on the premium in excess of the target premium and, thereafter, ongoing renewal fees or trail commissions. For further information, go to [www.key.com/kisreqbi](http://www.key.com/kisreqbi) or ask your financial professional.

In addition, KIS may receive so-called persistency bonuses for variable life insurance policies remaining in force. The insurer will pay KIS up to 2.00% of the total premiums paid or assets under management annually as long as your policy remains in force. These payments would come from the insurer's assets.

Your financial professional will have a choice as to how commissions are received, either as an upfront lump sum commission and asset-based trail commissions paid quarterly during the years your contract remains in force, or a slightly reduced upfront lump sum commission and higher asset-based trail commissions paid during the years your contract remains in force. The service fees or trail commissions are composed of fees and charges imposed under your variable life insurance contract, and other sources. The structure in which your financial professional selects to receive their commission does not impact your life insurance contract expenses.

If you liquidate, surrender or withdraw all or a portion of your policy cash value within a certain time period, you may be subject to surrender fees. In addition to sales charges, variable life insurance contracts have ongoing operating expenses that reduce your investment returns. These expenses include cost of insurance, administrative fees, mortality and expense fees, investment management fees and securities transaction fees. There may also be an additional ongoing expense to add an optional benefit to the contract through a contract rider, such as long-term care, chronic illness, disability waiver of premium or expense, high early cash value, child term or spousal term. Additional information, including details on the expenses associated with your variable life insurance are included in the prospectus, life insurance contract, statement of additional information, and other offering materials you will receive in connection with your variable life insurance purchase.

## **All Insurance Products**

Insurance products also have internal costs which the insurers levy to provide for cost of the insurance, administration fees, fees for riders (income riders or death benefit riders which enhance the income to be received or the death benefit to be received respectively) and, for variable products, the expenses for the underlying funds including management fees, servicing fees and 12b-1 fees. You may obtain the costs applicable to your policy from the policy itself or from your financial professional. You can find a description of the amount and payment frequency of all fees and expenses charged and paid by the mutual fund(s) contained in your variable annuity in the fund's prospectus. Fees and expenses disclosed in the mutual fund's prospectus are charged against the investment values of the fund. If you need to obtain a copy of the prospectus, please call your financial professional or go to [www.tools.finra.org/fund\\_analyzer](http://www.tools.finra.org/fund_analyzer) to access prospectus and other information on mutual funds.

## **Unit Investment Trusts (UITs)**

UITs are pooled investment vehicles in which a portfolio of securities is selected by the trust's sponsor and deposited into the trust for a specified period of time. The UIT's portfolio of securities is not actively traded, as the trust generally follows a "buy and hold" investment strategy. The portfolio will generally remain fixed until the termination of the trust. We offer equity and fixed income UITs. We, along with your financial professional, are compensated in ways that vary depending on the type and terms of the UIT portfolio selected. The types of fees received by us are described below and are disclosed via the prospectus issued by the UIT provider. Your financial professional can provide you a copy of the most recent prospectus. KIS also has developed a list of UITs which its financial professionals can recommend to you. Please go to [www.key.com/kisreqbi](http://www.key.com/kisreqbi) or ask your financial professional for a copy of that list.

You will typically pay a sales charge when you buy units in a UIT's initial offering, or a commission when you buy or sell units in a UIT in a secondary trading market. You will pay this sales charge or commission in addition to the amount of the UIT you choose to buy or sell. Sales charges and our compensation can vary according to the term of the trust. Trust terms are generally 1-5 years. Maximum sales charges for these trusts are 3.95%. Our compensation for these trusts is generally less than the maximum charge.

The UIT provider deducts fees as direct compensation from the proceeds available for investments for: (i) organizational and offering expenses and (ii) creation and development fees. In addition, the UIT provider deducts fees for marketing and distribution expenses which may include compensating us as described in each UIT prospectus.

Your purchase may qualify for breakpoint discounts based on the amount of transaction. See the trust prospectus for details.

Volume sales concession may be paid to us as described in each provider's UIT prospectus. Volume sales concessions are additional revenue received by us based on the volume of UIT sales. These payments may be used for a number of purposes, including training and educational conferences and education meetings for our financial professionals.

The UIT provider may reimburse us for training and education expenses to attend its product training programs. For further information please go to [www.key.com/kisregbi](http://www.key.com/kisregbi) or ask your financial professional.

## Fixed Income Securities (Bonds)

Your financial professional may recommend certain bonds to purchase for your account, especially tax-free bonds. The bonds we obtain for you may be purchased through KeyBanc Capital Markets Inc, our parent corporation which is an institutional/investment banking broker-dealer, either from its inventory or through an offering for which it is an underwriter or member of a selling group. You will typically pay a “markup” as a transaction cost to the clearing firm when you buy a bond, as most bonds are traded on a principal (dealer) basis. With most bonds, instead of charging you a commission to perform the transaction for you, the broker-dealer marks up the price of the bond to above its face value. When you buy bonds through a broker-dealer on the secondary market, the bonds will have price markups. The markup thus represents the difference between the price a broker-dealer pays for a bond and the price at which it is sold to you by the broker-dealer.

We receive a portion of a markup or increase to the price of the bond. The markups are charged at a rate of \$20.00 per bond (one bond is equal to \$5,000 par value for municipal securities and \$1,000 par value for others) up to 2.00% of the price of the bond without markup.

For further information on bonds such as offering documents, credit ratings or other information please go to [www.emma.mrsb.org](http://www.emma.mrsb.org) (for municipal bonds) or [www.finra-markets.morningstar.com/BondCenter/Default.jsp](http://www.finra-markets.morningstar.com/BondCenter/Default.jsp), or ask your financial professional.

## Non-Securities Investments

We sell structured and market linked investments comprised of structured and market linked Certificates of Deposit (“CDs”), which are underwritten by various third-party investment firms. For third-party issued CDs, the primary market offering fees are paid by the client and disclosed in the preliminary and final prospectus or final terms supplement. The primary market offering fees are comprised of our “placement fee” for the brokerage services of our financial professional. These primary market offering fees are based on a general commission schedule and are considered indirect compensation. Our placement fee is customarily 1.25% to 3.95%.

We also sell fixed and indexed annuities, term life insurance and long-term care insurance. We receive a commission for these sales which is customarily between 2.00% and 4.00% and may receive trail commissions of 0.55%.

Please refer to the offering documents or policy for each individual offering for more specific information regarding fees or contact your financial professional. While these are not securities, we do review any recommendation to purchase to ensure it is in your best interests.

## V. Compensation Involving Third Parties

We engage certain third parties to assist with the brokerage services we provide. We engage Pershing to act as our fully disclosed clearing broker. This section describes payments made to those third parties and to us resulting from those relationships. As discussed further below, Pershing shares with us a portion of this additional compensation based on the amount of our total customer assets invested in certain investments as of certain dates. These payments present a conflict of interest because they create an incentive for us to recommend investments that entail such payments rather than investments that do not entail these payments or entail less of these payments.

## Compensation Paid to Pershing by You

Pershing is our fully disclosed clearing broker. Pershing earns compensation from you in connection with Pershing's provision of clearing services to KIS. All of the compensation that you pay to Pershing is described in the Fully Disclosed Clearing Agreement between us and Pershing. Please contact your financial professional if you wish to learn the details of such compensation.

## Compensation Paid to Pershing by Third Parties

Pershing earns additional compensation from certain third parties in connection with providing clearing services to us.

Mutual Fund Fees. Pershing has entered into agreements with certain mutual fund companies that pay Pershing for performing certain services for the mutual fund. Pursuant to these agreements, Pershing receives fees for operational services from mutual funds in the form of networking or omnibus processing fees. The reimbursements are remitted to Pershing for its work on behalf of the funds. This work may include, but is not limited to, sub-accounting services, dividend calculation and posting, accounting, reconciliation, client confirmation and statement preparation and mailing and tax statement preparation and mailing. These reimbursements are based either on (a) a flat fee ranging from \$0 to \$20 per holding or (b) a percentage of assets that can range from 0 to 15 basis points for domestic funds and 0 to 30 basis points for offshore funds. Mutual funds that are available in Pershing's FundVest no-transaction fee mutual fund program may pay Pershing servicing fees in exchange for being offered in Pershing's FundVest Program. These payments are based on a percentage of assets and can range from 7 to 40 basis points. We may share in these fees if our assets under management in the FundVest Program exceed \$10,000,000, which creates a conflict of interest because we have an incentive to recommend investments that pay such fees. Such payment will be at the rate of 0.0040 multiplied by assets under management in funds participating in the Fund Vest Program. For additional details about Pershing's mutual fund no transaction fee program, or a listing of funds that pay Pershing networking or omnibus fees, please refer to Pershing's disclosure at: [www.pershing.com/global-assets/pdf/disclosures/per-mutual-fund-money-fund-and-bank-deposit-program-disclosures.pdf](http://www.pershing.com/global-assets/pdf/disclosures/per-mutual-fund-money-fund-and-bank-deposit-program-disclosures.pdf). For details about FundVest and our participation call your financial professional.

Money Fund and FDIC Insured Bank Product Fees. Pershing has entered into agreements with money market fund companies and FDIC-insured bank deposit products service providers. Pershing receives fees from money fund companies and service providers for making available money market funds and FDIC-insured bank deposit programs. A portion of Pershing's fees is applied against costs associated with providing services on behalf of the fund companies and service providers, which may include maintaining cash sweep systems, sub-accounting services, dividend and interest calculation and posting, accounting, reconciliation, client statement preparation and mailing, tax statement preparation and mailing, marketing and distribution related support, and other services. These fees are paid in accordance with an asset-based formula that can range from 0 to 100 basis points annually. We may share in these fees, which creates a conflict of interest because we have an incentive to recommend investments that entail such fees. For a listing of money funds and FDIC-insured bank products that pay Pershing these fees, please refer to Pershing's disclosure at: [www.pershing.com/global-assets/pdf/disclosures/per-mutual-fund-money-fund-and-bank-deposit-program-disclosures.pdf](http://www.pershing.com/global-assets/pdf/disclosures/per-mutual-fund-money-fund-and-bank-deposit-program-disclosures.pdf).

Annuity Fees. Pershing has entered into arrangements with insurance companies through which Pershing may receive servicing fees from certain insurance companies that participate in Pershing's annuity program. These one-time fees typically amount to between \$10 and \$17 per annuity contract. In addition, Pershing receives operational reimbursement fees from certain insurance companies for the services it provides, which may include, but are not limited to, posting, accounting reconciliation and client statement preparation and mailing. These fees typically amount to \$6 per year for annuity contracts. We may share in these fees, which creates a conflict of interest because we have an incentive to recommend investments that entail such fees. For a listing of the insurers that pay

Pershing these fees, please refer to Pershing's disclosure at: [www.pershing.com/global-assets/pdf/disclosures/per-annuity-fees-and-revenue.pdf](http://www.pershing.com/global-assets/pdf/disclosures/per-annuity-fees-and-revenue.pdf).

**Alternative Investment Network Fees.** Pershing has entered into arrangements through which it may receive servicing fees from managed futures funds, hedge funds, real estate investment trusts (REITs), direct participation programs and fund-of-funds (collectively "alternative investments") that participate in Pershing's Alternative Investment Network no-fee program in lieu of transaction fees and special product fee charges to your firm. These fees are calculated in accordance with an asset-based formula that can range from 10 to 50 basis points annually. Pershing also receives set-up fees from alternative investment providers or broker-dealers in the form of a one-time fee to add an alternative investment to the Alternative Investment Network. The fee is a flat fee ranging from \$100 to \$300 per fund and is remitted to Pershing for its work to set up the alternative investment on Pershing's systems. For additional details regarding Pershing's Alternative Investment Network no-fee program or a listing of entities that pay fees to Pershing, please refer to Pershing's disclosure at: [www.pershing.com/global-assets/pdf/disclosures/per-alternative-investment-network-fees.pdf](http://www.pershing.com/global-assets/pdf/disclosures/per-alternative-investment-network-fees.pdf).

**Sponsorship Fees.** Mutual fund companies, annuity companies, ETF providers, money market providers and other providers offering investment, business and technology products and services offer marketing support in the form of sponsorship fee payments to Pershing (or third parties at Pershing's direction) in connection with educational conferences, events, seminars, and workshops that Pershing offers to its broker-dealer or investment professional customers. These payments are made through arrangements with investment providers and may be for the expenses of educational materials or other conference-related expenses. Generally, the smallest level of sponsorship is \$5,000, and the level of sponsorship can increase depending on the opportunity. For a listing of companies that pay sponsorship fees to Pershing for events, please ask your financial professional.

**Payment for Order Flow.** Pershing may receive compensation in connection with routing orders to the marketplace for execution, subject to its obligations to seek best execution. Such compensation may be received from unaffiliated broker-dealers or from securities exchanges. In all cases, Pershing seeks best execution in routing orders. For a description of the compensation earned by Pershing in connection with routing orders, and Pershing's procedures in routing orders, please refer to Pershing's disclosure at: [www.pershing.com/global-assets/pdf/disclosures/per-order-routing-sec-rule-606.pdf](http://www.pershing.com/global-assets/pdf/disclosures/per-order-routing-sec-rule-606.pdf).

**Float.** Pershing may obtain a financial benefit attributable to cash balances of client accounts that are held by Pershing in connection with cash investment or cash pending distribution. For a more detailed description of this compensation, refer to Pershing's disclosure at: [www.pershing.com/global-assets/pdf/disclosures/per-float.pdf](http://www.pershing.com/global-assets/pdf/disclosures/per-float.pdf).

## VI. Conflicts of Interest

We have identified certain conflicts of interest (conflicts) that relate to the recommendations we and our financial professionals make. A conflict arises when an interest (such as an economic benefit) might incline us or your financial professional, consciously or unconsciously, to make a recommendation that is not disinterested. The section below discloses material facts relating to these conflicts so that you are able to make an informed decision regarding any recommendation your financial professional provides you.

As described more fully below, the differences in payments available from various vendors creates a conflict where either your financial professional may be incented to recommend one investment over another less costly investment, or we may be incented to urge our financial professionals to recommend the more costly alternative.

## Conflicts for Both KIS and Your Financial Professional

### **Commissions**

We are paid each time you trade in your brokerage account or make a new investment. We pay our financial professionals a portion of the transaction-based payments that we receive. These transaction-based payments (e.g., commissions) incentivize us and your financial professional to encourage you to trade more and purchase additional investments that result in additional revenue for our firm and your financial professional.

### **KeyBank Affiliate Referrals**

Your financial professional may recommend that you open an investment or trust account with KeyBank. If you have an account at KIS, you are referred to KeyBank and you decide to move your account to KeyBank, your financial professional will receive production credit of 90 basis points (.0090 times the value of the account moved) for a period of time. These payments come from KeyBank and do not directly affect your fees that were agreed to with KeyBank. These payments present a conflict of interest because they create an incentive for KIS and your financial professional to refer you to KeyBank for investments that entail such payments rather than investments that do not entail these payments or entail less of these payments. Additionally, investments with an affiliate such as KeyBank benefit the affiliate, KIS and their parent financial holding company more than non-affiliate investments. This may induce the financial professional to refer you to invest with an affiliate over investing with others which creates a conflict of interest.

### **Training and Education**

We work closely with many issuers, wholesalers, product and service providers who provide training and education meetings for our financial professionals. These meetings or events are held to educate financial professionals on investment features and characteristics, business building ideas, successful sales techniques, suitability and various other topics. In addition, certain third parties provide free or discounted research or other products and services, which can assist our financial professionals with providing services to you.

We offer multiple ways for product and service providers to provide training and education to our financial professionals. This training and education may be offered in branch offices or in larger group settings, including at the national level. Certain product and service providers have agreed to dedicate resources and funding to provide this training and education at our nationally organized events. This commitment could lead our financial professionals to focus on, and recommend to you, the products offered from these providers versus the products offered by families not providing this level of training and education support. We select the product and service providers that participate in the training and education events based on a variety of qualitative and quantitative criteria. The subset of these families that offer this support and participate in national organized training and education events may change periodically.

Likewise, from time to time, issuers will reimburse us for expenses incurred by individual branch offices in connection with conducting training and educational meetings, conferences or seminars for our financial professionals and customers. Also, financial professionals may receive promotional items, meals or entertainment or other non-cash compensation from product providers. Financial professionals may receive a maximum value of \$100 worth of gifts from each product provider per year. In addition, our financial professionals may receive reasonable meals and business entertainment from product providers.

Although training and education compensation is not related to individual transactions or assets held in customer accounts, it is important to understand that, due to the total number of product providers whose products are offered by us, it is not possible for all companies to participate in a single meeting or event. Consequently, those product providers that do participate in training or educational meetings, seminars or other events gain an opportunity to build relationships with our financial

professionals; these relationships could lead to recommendations to you and sales of that particular company's products.

We receive varying amounts of training and education compensation from companies. The training and education compensation for centrally organized events and vendor products or services may vary from \$25,000 to \$50,000 per company annually. We receive significant moneys from several vendors so that we can put on a sales and product training symposium annually for a select group or all of our financial professionals. There are also some companies that do not provide any training and education compensation to us. For a list of vendors who pay us for training and education and the amounts paid please go to [www.key.com/kisreqbj](http://www.key.com/kisreqbj) or ask your financial professional for a copy of our list.

### **Marketing Allowances**

KIS also asks certain general mutual fund companies, insurance agencies and insurance companies whose products we sell to make additional payments. We typically receive additional payments in the form of a percentage-based fee of up to 0.25% of your total purchase amount (which would be \$25 on a \$10,000 investment) on sales of equity fund shares or insurance contracts and up to 0.15% (which would be \$15 on a \$10,000 investment) on sales of fixed income fund shares, and you pay these expenses indirectly because they are built into the cost of the insurance product. After the first year, these payments typically would be up to 0.05% (which would be \$5 on a \$10,000 investment) every year while you own your shares. Some insurers or fund companies may calculate this on a total amount of assets under management in their policies sold by KIS. Some mutual funds may compensate us by paying a fixed dollar amount (typically \$6 or less per account) for administrative and recordkeeping services. Some funds pay both a percentage-based fee and a fixed dollar amount fee.

These amounts would be in addition to any service fees or 12b-1 fees that KIS receives. The payments typically come from the distributor, investment adviser, insurance company or another entity related to the fund and, in that case, they would not increase your cost as an investor. However, some mutual funds may consider part or all of these payments to be part of the fund's normal operating expenses and pay them from the fund's assets, which means that you pay these expenses indirectly. The fund's prospectus may not specifically describe these additional fees as service fees or identify them separately from other expenses of the fund.

KIS and your financial professional have a conflict of interest because these payments incentivize us and your financial professional to recommend investments that offer higher marketing allowance payments than other investment options.

### **Revenue Sharing**

Revenue sharing fees are paid to us by issuers of investments for providing continuing due diligence, training, operations and systems support and marketing to our financial professionals and customers with respect to mutual fund companies and their funds. We may receive revenue sharing from mutual fund companies in connection with your mutual fund investments through arrangements we have with them. Your financial professional does not receive direct payment for revenue sharing fees but may receive an indirect benefit for covering the costs associated with certain educational conferences or training seminars. Further these payments are not made from the mutual fund itself.

Revenue sharing fees are usually paid by the mutual fund's investment adviser, or an affiliate, as a percentage of our aggregate value of assets invested in the funds. In certain instances, revenue sharing may be paid as a percentage of annual new sales to customers, or as a combination of a percentage of new sales and a percentage of aggregate customer assets. The percentage amounts are typically established in terms of basis points, which are equal to one one-hundredth of 1%. For example, if the mutual fund company paid 10 basis points in revenue sharing for a given fund, that would equate to receiving \$10 for each \$10,000 of total assets in customer accounts in the fund.

We receive different revenue sharing rates from each mutual fund family and may receive different revenue sharing rates for certain funds within a particular fund family. There are also some mutual fund families who do not pay revenue sharing to us. This revenue sharing creates a conflict of interest because we have an incentive to recommend investments that entail such payments rather than investments that do not entail these payments or entail comparatively lower payments.

Mutual fund companies pay us revenue sharing compensation at an annual rate of approximately 2 to 20 basis points on aggregate customer assets (on a \$10,000 customer position, 20 basis points equals \$20 per year). Several mutual fund companies pay us revenue sharing based on new customer sales into their funds. These rates range from 3 to 8 basis points on sales of the mutual funds. For example, on a \$10,000 sale of the fund, 8 basis points equals \$8.

Certain mutual funds may pay us a negotiated, fixed annual amount for revenue sharing, regardless of the amount of assets held in our client accounts or in new sales to investors.

You can find a description of the amount and payment frequency of all fees and expenses charged and paid by the mutual fund in the fund's prospectus. Fees and expenses disclosed in the mutual fund's prospectus are charged against the investment values of the fund. You can find out which fund companies pay us revenue sharing moneys and how much at [www.key.com/kisregbj](http://www.key.com/kisregbj) or by asking your financial professional for a copy of our list. If you need a copy of the prospectus, please call your financial professional or go to [www.tools.finra.org/fund\\_analyzer](http://www.tools.finra.org/fund_analyzer) to access prospectus and other information on mutual funds.

### **Third-Party Payments**

For some investments you purchase based on our recommendation, we receive payments from a third-party that are in addition to the transaction-based payments. This is typically the case when you purchase mutual funds and variable products. For example, certain issuers make ongoing payments to us based on invested assets, such as 12b-1 fees or shareholder servicing fees. All of these third-party payments incentivize us and your financial professional to recommend investments that entail these payments rather than investments that do not entail these payments or entail comparatively lower payments.

### **Conflicts for KIS**

#### **FDIC Variable Rate Deposit**

You may decide that cash funds in your account be invested in a FDIC Variable Rate Deposit account with a sweep option. The FDIC Variable Rate Deposit account is an interest-bearing bank deposit account maintained by Pershing as part of its custodial services for clients. It is offered through us and is held at KeyBank (an affiliate of our financial holding company, KeyCorp) in the name of Pershing as agent for its customers. None of our employees has access to the funds in the FDIC Variable Rate Deposit account except to perform services at Pershing's direction. The FDIC Variable Rate Deposit account is a sweep option for your brokerage account with us. You may not write checks or negotiate orders of withdrawal or make deposits or withdrawals directly at KeyBank against this FDIC Variable Rate Deposit account. All activity with regard to this deposit account must be conducted through your brokerage account with Pershing. All deposits to and withdrawals from this account will be made by Pershing acting as agent for its customers. Information, including monthly interest paid, will be included on your periodic statement of account. The FDIC Variable Rate Deposit account pays interest at a variable interest rate. KeyBank sets the rate on the account using various money market interest rates, including the 3-month London InterBank Offered Rate and iMoneyNet average of all taxable money market funds, as guidelines. KeyBank sets the interest rate in its discretion and does not guarantee that the rate set will be directly related to any other money market rate. The interest rate and Annual Percentage Yield ("APY") may be changed by KeyBank as often as daily. There are no limits on the amount the interest rate or APY may change. The Daily Balance method is used to compute interest on accounts. This method applies the daily percentage rate to the balance in the account each day. To determine the daily percentage rate, the interest rate is

divided by the actual number of days in the year. Interest begins to accrue on the day funds are swept into the FDIC Variable Rate Deposit account and continues to accrue up to but not including the day of withdrawal. Interest is compounded and will be paid to client accounts monthly. Should you liquidate the entire balance in this account option before interest is credited, interest accrued up to, but not including, the day of liquidation will be paid at the time of liquidation.

Direct Compensation. KeyBank may pay us a commission of up to 10 basis points (0.10%) per annum in monthly installments based on the monthly average balance in the FDIC Variable Rate Deposit account. This percentage is similar to that which KeyBank pays unaffiliated deposit brokers. This payment does not affect the rate paid on the account and does not get deducted from or otherwise impact your account balances.

Indirect Compensation. Our affiliates, including the affiliated banks, benefit financially from cash balances held in the FDIC Variable Rate Deposit account. As with other depository institutions, the profitability of KeyBank is determined in large part by the difference or “spread” between the interest it pays on deposit accounts, such as the FDIC Variable Rate Deposit, and the interest or other income it earns on loans, investments and other assets. KeyBank will lend or invest cash deposited with it and may earn interest, dividends or capital gains or losses on those deposits. KeyBank may pay rates of interest on the FDIC Variable Rate Deposit that are lower than prevailing market interest rates. The participation of KeyBank in the FDIC Variable Rate Deposit is expected to increase its respective deposits and, accordingly overall profits.

Funds in the FDIC Variable Rate Deposit account from your account are not segregated from other deposit funds, so attributing an exact earning or interest factor applicable to your account’s sweep deposit is not possible. Earnings on the float (or the corresponding reduction in borrowing, depending on anticipated funding needs) depends on numerous factors such as current interest rates, Federal Funds rates, credit risk, and the duration of the particular debt instrument.

## Mitigation Measures

To minimize these conflicts, we do the following:

- We cap the commissions your financial professional may receive credit for at 4.00% for variable annuities.
- Our centralized Central Supervision Group reviews all recommended trades to ensure that they are in your best interest.
- We have no sales contests requiring our financial professionals to recommend certain investment securities.
- We utilize Envestnet | MoneyGuide’s MoneyGuidePro software to provide a holistic financial plan which will inform your financial professional as to what investments may be appropriate for you.
- We utilize CapitalRock, LLC’s RightBRIDGE Annuity Wizard policy comparison tool for informing your financial professional of different annuity issuers’ products that would best meet your expressed financial situation and needs.
- We utilize CapitalRock, LLC’s RightBRIDGE Product Profiler tool to map product types to your expressed financial situation and needs to help determine which mix of investment vehicles or products are best suited to your needs.
- We utilize CapitalRock, LLC’s RightBRIDGE IRA Rollover Analysis within the Product Profiler tool to assist in determining the whether the recommended rollover is in the client’s best interest.
- Our Product Due Diligence Committee, in conjunction with Due Diligence Works Inc., conducts investment due diligence reviews of our mutual fund, UIT and variable annuity

options and develops our fund family focus list and a preferred list of UITs from which your financial professional may make recommendations to you. This review includes comparing cost to value of the product as well as an assessment of the quality of the investment offerings as compared to other funds, UITs or variable annuities.

- Our affiliated bank, KeyBank, provides investment due diligence and management services to us. KeyBank receives compensation for its services through a shared services agreement between KeyBank and KIS. Such services are priced at a market rate, per federal banking regulations, and are then charged internally against KIS. In addition, KeyBank receives indirect compensation in the form of advisory fees paid to its affiliate, KIS. Client accounts will not be directly charged for these services.
- We use ALIRT, Inc. to provide us with due diligence and other information concerning the insurers whose products we sell.
- We do not permit our financial professionals to accept vendor specific due diligence trips or reimbursement of related travel, lodging and other expenses. All such due diligence or training must be approved by and directed at KIS and not its individual financial professionals.

## VII. Further Information

Please go to [www.key.com/kisregbi](http://www.key.com/kisregbi), contact your financial professional or call or call the KIS Client Service Center at 1-888-547-2968 for further information concerning payments and conflicts such as commissions, whether the mutual funds in which the you invest pay us revenue sharing, annuity fees, trails and commissions, moneys paid to Pershing or any other items related to this Guide or that you may need, including prospectus.