

# **Herndon Plant Oakley Ltd.**

## **Regulation Best Interest Disclosure**

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# Regulation Best Interest Disclosure

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Herndon Plant Oakley, Ltd. (“HPO,” “our,” “we,” “us”) offers brokerage services to you and our customers. This guide summarizes important information concerning the scope and terms of those brokerage services that are offered by us and details the material conflicts of interest that arise through our delivery of brokerage services to you. We encourage you to review this information carefully, along with any applicable account agreement(s) and disclosure documentation you may receive or have received from us.

As you review this information, we would like to remind you that we are registered with the U.S. Securities and Exchange Commission (“SEC”) as a broker-dealer providing brokerage services and a member firm of the Financial Industry Regulatory Authority (“FINRA”) and the Municipal Securities Rulemaking Board (“MSRB”). Our brokerage services are the primary focus of this guide. Our Form CRS contains important information about the types of services we offer, brokerage, along with general information related to compensation, conflicts of interest, disciplinary action, and other reportable legal information.

Please carefully review and consider the information contained in each section set forth herein.

## Brokerage Services

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When you establish a brokerage account with us, you have the ability to buy, sell, and hold investments within your account. The primary service we provide is our trading capability. We execute purchases and sales on your behalf and as directed by you. In a brokerage services relationship, we can trade with you for our own account, for an affiliate, or for another client, and we can earn a profit on those trades. The capacity in which we act is disclosed in your trade confirmation. However, we are not required to communicate it in advance, obtain your consent, or inform you of any profit earned on trades.

### Cash Brokerage and Margin Brokerage Accounts

We provide brokerage services through either a cash brokerage account or a margin brokerage account based on your eligibility and selection. In a cash brokerage account, you must pay for your purchases in full at the time of purchase. In a margin brokerage account, you must eventually pay for your purchases in full, but you may borrow part of the purchase price from our clearing firm, RBC Clearing & Custody, a division of RBC Capital Markets, LLC. This is generally referred to as a “*margin loan*.” The portion of the purchase price that is loaned to you is secured by securities in your account, also referred to as “*collateral*.” You will incur interest costs as a result of your margin activity, which will be determined by RBC Clearing & Custody. While many securities are eligible to be used as collateral for a margin loan, some securities are not available for margin collateral purposes.

Given that a margin-enabled brokerage account has specific eligibility requirements, unique costs, and governing regulatory requirements, our default brokerage option is our cash brokerage account. You must execute a separate margin agreement before engaging in margin brokerage activity. Included with your margin agreement is a copy of the Margin Disclosure Statement. This statement contains important information you should understand and consider before establishing a margin brokerage relationship with us. For more information on our margin brokerage services, contact a registered representative, or refer to our Margin Disclosure Statement, available upon verbal request; you can contact Elizabeth Ragan at (361) 888-7611.

## **Brokerage Account Types**

We offer many different brokerage account types, including individual and joint accounts, custodial accounts, Delivery Versus Payment (“DVP”) accounts, estate and trust accounts, partnership accounts, individual retirement accounts, and other types of retirement accounts, as outlined in our account agreement(s). You should refer to our account agreement(s) for more information concerning available account types or speak with a registered representative.

## **Incidental Brokerage Services, Recommendations and Account Monitoring**

Within your brokerage account, we may also provide other incidental services such as research, and recommendations to buy, sell, or hold assets. Generally, when we make a securities recommendation, an investment strategy recommendation, or a recommendation regarding securities, we act in a brokerage capacity, and as such, we do not agree to enter into a fiduciary relationship with you. However, when we make a securities recommendation, investment strategy recommendation, or recommendation to rollover assets from your Qualified Retirement Plan (“QRP”) to an Individual Retirement Account (“IRA”), we are fiduciaries within the meaning of Employee Retirement Income Security Act and the Internal Revenue Code.

It is important for you to understand that when our registered representatives make a brokerage recommendation to you, we are obligated to ensure the recommendation is in your best interest, considering reasonably available alternatives, and based on your stated investment objective, risk tolerance, liquidity needs, time horizon, financial needs, tax status, and other financial information you provide us. You may accept or reject any recommendation. It is also your responsibility to monitor the investments in your brokerage account, and we encourage you to do so regularly. We do not commit to providing on-going monitoring of your brokerage account. If you prefer on-going monitoring of your account or investments, you should speak with a registered representative about whether an advisory services relationship is more appropriate for you.

Please also consider that from time to time, we may provide you with additional information and resources to assist you with managing your brokerage account. This may include but is not limited to educational resources, sales and marketing materials, performance reports, asset allocation guidance, and/or periodic brokerage account reviews. When we offer these services and information, we do so as a courtesy to you. These activities are not designed to monitor specific investment holdings in your brokerage account, they do not contain specific investment recommendations about investment holdings, and you should not consider them a recommendation to trade or hold any particular securities in your brokerage account. Upon your request, we will review such information and reports with you and may provide you with investment recommendations, but we are not under a specific obligation to do so.

## **Clearing Services**

We have entered into an agreement with RBC Clearing & Custody to carry your account on a fully disclosed basis and provide certain back-office functions. We and RBC Clearing & Custody share responsibilities with respect to your account as set forth in the Designation of Responsibilities that was delivered to you upon opening of your account. Please refer to the Designation of Responsibilities and your Client Agreement for more information on how such responsibilities have been allocated between us.

## **Account Minimums and Activity Requirements**

We generally require that clients have a minimum of \$50,000 in investment assets to open and maintain a brokerage account with us; however, we may waive the minimum at our sole discretion. In addition, some types of brokerage accounts have minimum account activity requirements and/or minimum on-going balance requirements that must be maintained, or your brokerage account will

be closed. These requirements are detailed in the account agreement(s) you received when you opened your brokerage account.

You should also understand that our registered representatives may establish their own minimum account balance requirements for the brokerage accounts they service. For example, a dedicated registered representative may choose to serve only those brokerage account clients who satisfy account-specific or total household asset conditions. Minimum asset requirements are disclosed to you orally by your registered representative.

## Understanding Risk

It is important for you to understand that all investment recommendations and activities involve risk, including the risk that you may lose your entire principal. Further, some investments involve more risk than other investments. Higher-risk investments may have the potential for higher returns but also for greater losses. The higher your “risk tolerance,” meaning the amount of risk or loss you are willing and able to accept in order to achieve your investment goals, the more you may decide to invest in higher-risk investments offering the potential for greater returns. We align risk tolerances with investment needs to offer you different investment objectives from which to choose (see below). You should select the investment objective and risk tolerance best aligned with your brokerage account goals and needs.

Investment goals typically have different time horizons and different income and growth objectives. Generally, investment goals are on a spectrum, with “*Income*” investors typically holding the smallest percentage of higher-risk investments, followed by “*Growth and Income*” investors holding some higher-risk investments, and finally, “*Growth*” investors holding a significant portion of their portfolio in higher-risk investments. Risk tolerance also varies, and we measure it on a continuum that increases from “*Conservative*” to “*Moderate*” to “*Aggressive*,” and finally, “*Trading and Speculation*.” See the chart below for details.

Investment Objective	Investment Objective Description	Risk Tolerance	Risk Tolerance Definition
Income	Income portfolios emphasize current income with minimal consideration for capital appreciation and usually have less exposure to more volatile growth assets.	Conservative	Conservative Income investors generally assume lower risk but may still experience losses or have lower expected income returns.
		Moderate	Moderate Income investors are willing to accept a modest level of risk that may result in increased losses in exchange for the potential to receive modest income returns.
		Aggressive	Aggressive Income investors seek a higher level of returns and are willing to accept a higher level of risk that may result in greater losses.
Growth & Income	Growth and Income portfolios emphasize a blend of current income and capital appreciation and usually have some exposure to more volatile growth assets.	Conservative	Conservative Growth and Income investors generally assume a lower amount of risk but may still experience losses or have lower expected returns.
		Moderate	Moderate Growth and Income investors are willing to accept a modest level of risk that may result in increased losses in exchange for the potential to receive modest returns.
		Aggressive	Aggressive Growth and Income investors seek a higher level of returns and are willing to accept a higher level of risk that may result in greater losses.
Growth	Growth portfolios emphasize capital appreciation with minimal consideration for	Conservative	Conservative Growth investors generally assume a lower amount of risk but may still experience increased losses or have lower expected growth returns.
			Moderate Growth investors are willing to accept a modest level of risk that may result in significant losses in exchange for the

	current income and usually have significant exposure to more volatile growth assets.	Moderate	potential to receive higher returns.
		Aggressive	Aggressive Growth investors seek a higher level of returns and are willing to accept a high level of risk that may result in more significant losses.
Trading and Speculation	Trading and Speculation investors seek out a maximum return through a broad range of investment strategies which generally involve a high level of risk, including the potential for unlimited loss of investment capital.		

Our recommendations are based in part on your risk tolerance and investment objective, as outlined above. We encourage you to carefully consider your investment objective and risk tolerance before investing.

## **Cash Sweep Program Feature**

Our brokerage services include a Cash Sweep Program feature. This program permits you to earn a return on uninvested cash balances in your brokerage account by allowing cash balances to be automatically “swept” into a “Cash Sweep Vehicle” until such balances are otherwise required to satisfy obligations arising in your account. These Cash Sweep Vehicles include interest-bearing deposit accounts and, if permissible, money market mutual funds or such other sweep arrangements made available to you. You will receive additional information concerning the Cash Sweep Program in your account agreement(s). More information about the Cash Sweep Program can be found in the Cash Sweep Program Disclosure Statement or is available upon verbal request. Please call Elizabeth Ragan at (361) 888-7611 to request this information.

## **Brokerage service models and products**

We offer a variety of service models, from full-service brokerage accounts to self-directed brokerage accounts. For more specific information on what might be available to fit your needs, please call your registered representative or contact Elizabeth Ragan at (361) 888-7611.

## **Brokerage Fees and Our Compensation**

It is important to consider that while a brokerage relationship can be a cost-effective way of investing your assets, it is not for everyone, given the fees and costs involved.

### **Transaction-Based Fees**

You will pay transaction-based fees for trades you decide to enter into, such as buying and selling stocks, bonds, Exchange Traded Products (“ETPs”), mutual funds, annuity contracts, purchasing and exercising options, and other investment purchases and sales. These transaction-based fees are generally referred to as a “*commission*,” “*mark up*,” “*sales load*,” or a “*sales charge*.” Transaction-based fees are based on a host of factors, including, but not limited to:

- Underlying product selection
- Your brokerage service model and account type
- Size of your transaction and/or overall value of your account
- Frequency of your trade activity
- Available discounts and/or fee waivers

### **Account and Service Fees**

You will pay fees for various operational services provided to you through your brokerage account. These fees are set at least annually and communicated to you through the information included in

your account statement and other notifications. These fees do not apply to all account types and may be waived under certain conditions.

You should understand that based on the brokerage service model you choose, the same or similar products, accounts, and services may vary in the fees and costs charged to you. For more information concerning our administrative and service fees, please contact your registered representative or call Elizabeth Ragan at (361) 888-7611.

## **How We Are Compensated**

We receive direct and indirect compensation in connection with your accounts. Direct compensation is taken directly from the affected account. Indirect compensation is compensation paid in ways other than directly from the account and may impact the value of the associated investments in your account. The sections below describe the compensation that we receive in connection with various investments that may be available to you. In many cases, the descriptions that follow refer to a prospectus or offering documents.

## **Investment Product Compensation**

### **Commission Schedule for Stocks, Rights, Warrants, Secondary Market Closed-End Funds (“CEFs”), and Exchange Traded Products (“ETPs”)**

All commissions are on a transaction basis; these commissions can be negotiated with your registered representative. You may or may not be charged a commission. Please visit with your registered representative for any additional questions you might have.

### **Equity transactions**

All commissions are on a transaction basis; these commissions can be negotiated with your registered representative. You may or may not be charged a commission. Please visit with your registered representative for any additional questions you might have.

### **Option Rates Equity and Index**

Options compensation is received as direct compensation, as described below. All commissions are on a transaction basis; these commissions can be negotiated with your registered representative. You may or may not be charged a commission. Please visit with your registered representative for any additional questions you might have.

### **Mutual Funds**

We currently offer thousands of mutual funds varying in share class structure and investment style. If you invest in mutual funds, we receive direct and or indirect compensation in connection with such mutual fund investments, as described below.

**12B-1/Shareholder Service Fees.** Annual 12b-1 fees, also known as trails, are paid by the fund, and paid to us out of fund assets under a distribution and servicing arrangement to cover distribution expenses and sometimes shareholder service expenses that we may provide on the fund's behalf. Shareholder servicing fees are paid to respond to investor inquiries and provide investors with information about their investments. These fees are asset-based fees charged by the fund family. These fees range from 0.00% to 1.00%, but the majority of these fees average 0.25%. These fees may be passed on to us and may, in turn, be passed on to your Registered representative as a commission.

**Front-end Sales Charge Fees/Contingent Deferred Sales Charges (CDSC).** Front-end sales charge fees are charged and paid to us, including your registered representative, when you purchase a fund. The front-end sales charge is deducted from the initial investment on certain share classes. This charge normally ranges from 0.00% to 5.75%. Some purchases may qualify for a reduced front-end sales charge due to breakpoint discounts based on the amount of transaction and rights of

accumulation. In addition, some purchases may qualify for a sales charge waiver based on the type of account and/or certain qualifications within the account. You should contact your registered representative if you believe you are eligible for sales charge waivers.

CDSC is a charge you pay upon withdrawal of money from a fund prior to the end of the fund's CDSC period. CDSC charges range from 0.00% to 5.50%. CDSC periods can range from zero to seven years. This charge typically exists only on share classes that do not have a front-end sales charge. It is sometimes referred to as the back-end load. CDSCs are not charged when you purchase a fund. The fee charged will depend on the share class purchased by the investor. A CDSC is not passed on to your registered representative. You can find a description of the amount and payment frequency of all fees and expenses charged and paid by the fund in the fund's prospectus. Fees and expenses disclosed in the fund's prospectus are charged against the investment values of the fund. Please note that 12b-1s and similar fees or compensation received in connection with our affiliated funds are not received or are rebated on ERISA assets.

**Data Agreement.** All Mutual Funds companies we conduct business with under an agreement to solicit their products. The compensation is outlined in the prospectus. The registered representative receives an upfront commission from the Mutual Fund companies and a trailing commission depending on the fund. Specifics on the commission earned by the registered representative are contained in the prospectus.

## **Annuities**

Our annuities consist of fixed, index, and variable annuities. Under arrangements with insurance companies, your registered representative receives commissions from the insurance companies for the sale of annuities, as well as trail commissions, and they are considered indirect compensation. Commissions and trails paid to us vary by product type and may vary by insurance carrier. All annuity contracts are sold with a prospectus, and additional information can be found in the prospectus.

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

Our UITs consist of Equity and Fixed-Income UITs. We, along with your registered representatives, 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 registered representative can provide you a copy of the most recent prospectus. The UIT provider deducts fees as compensation from the proceeds available for investments for marketing and distribution expenses, which may include compensating us as described in each UIT prospectus. All commissions are on a transaction basis; these commissions can be negotiated with your registered representative. You may or may not be charged a commission. Please visit with your registered representative for any additional questions you might have.

## **529 College Savings Plans (“529 Plans”)**

We currently offer numerous 529 plans, both state and out-of-state. We receive a front-end sales charge fee or a contingent deferred sales charge. If you invest in 529 Plans, we receive direct and or indirect compensation in connection with such 529 Plan investments, as described below. You may also pay enrollment or one-time fees and or annual maintenance fees. See the prospectus, program brochure, or plan description for a listing of each plan's fees. Many states offer favorable state tax treatment to residents in investing in their home state's 529 Plan. See the prospectus, program brochure, or plan description for a listing of each plan's treatment of benefits to residents of their state.

**Front-end Sales Charge Fees/Contingent Deferred Sales Charges (CDSC).** Front-end sales charge fees are charged and paid to us, including your registered representative, when you purchase a fund. The front-end sales charge is deducted from the initial investment on certain share classes. This charge normally ranges from 0.00% to 5.75%. Some purchases may qualify for a reduced front-end sales charge due to breakpoint discounts based on the amount of transaction and rights of accumulation. In addition, some purchases may qualify for a sales charge waiver based on the type of

account and/or certain qualifications within the account. You should contact your registered representative if you believe you are eligible for sales charge waivers.

CDSC is a charge you pay upon withdrawal of money from a fund prior to the end of the fund's CDSC period. CDSC charges range from 0.00% to 5.50%. CDSC periods can range from zero to seven years. This charge typically exists only on share classes that do not have a front-end sales charge. It is sometimes referred to as the back-end load. CDSCs are not charged when you purchase a fund. The fee charged will depend on the share class purchased by the investor. A CDSC is not passed on to your registered representative. You can find a description of the amount and payment frequency of all fees and expenses charged and paid by the fund in the 529 Plan's prospectus. Fees and expenses disclosed in the fund's prospectus are charged against the investment values of the fund.

## **Certificate of Deposits**

We currently offer Certificate of Deposits ("CD"), which are deposit obligations of a depository institution (the "Issuer") domiciled in the U.S. or one of its territories, the deposits and accounts of which are insured by the Federal Deposit Insurance Corporation (the "FDIC") within certain limits as set out in the Certificate of Deposit Disclosure Statement. Each CD constitutes a direct obligation of the Issuer and is not, either directly or indirectly, an obligation of HPO or RBC Clearing & Custody. CDs may be purchased both upon issuance (the primary market) and in the secondary market. Markups and Markdowns are charged on a transaction basis and paid to us, including to your registered representative, when you purchase a CD. Please visit with your registered representative for any additional questions you might have.

## **Private Placements**

We offer private placements of unregistered securities, which can be either debt or equity securities. We compensated based on a percentage of your invested capital in the private placement. That percentage payable to us is set out and disclosed in the respective private placement memorandum, private offering memorandum, or disclosure document, as well as in the subscription agreement you will execute to acquire an interest in a private placement (collectively the "Offering Documents"). The commission payable to us is non-negotiable, as it is negotiated between the sponsor or issuer of the private placement prior to the offering of the private placement securities. Our compensation is generally paid out of the proceeds of the offering by the issuer, although it may be paid by the sponsor or an affiliated entity. We may also receive warrants or options to purchase securities related to the private placement offering in certain circumstances. See the Offering Documents for a discussion of the compensation arrangements with the sponsor and or issuers.

Your registered representative may receive a portion of the compensation. as determined by the registered representative and us. Your registered representative can provide you with the most recent private Offering Documents, which in addition to disclosing our compensation arrangements, also disclose additional fees and costs imposed on the private placement investment by the issuer and its affiliates, risks related to investing in that private placement, the minimum investments accepted, the suitability requirements of investors, and other information critical to an investors decision to invest in any such private placement. It should be noted that private placement securities are illiquid and have no current market.

## Revenue Sharing

We currently have a revenue sharing arrangement with RBC Clearing & Custody that allows for sharing in revenues for Cash Credit Balances, FDIC Money Market Sweep, and Margin Accounts.

### Cash Credit Balances

On Cash Credit Balances, we earn a monthly fee calculated on the average net cash assets in the account per the table below. (Please note that “*basis points*” are a unit of measure used in finance to describe the percentage change in the value or rate of a financial instrument. One basis point is equivalent to 0.01% (1/100<sup>th</sup> of a percent) or 0.0001 in decimal form).

Bank Deposit Sweep Balances	HPO Participation
Up to \$5Million	15 basis points
\$5Million to \$10 Million	25 basis points
Over \$10Million	40 basis points

### FDIC Money Market Sweep

On funds sweep into the RBC Insured Deposit Sweep Account, we earn a monthly fee calculated on the average net cash assets in the account per the table below, exclusive of ERISA and advisory accounts. (Please note that the Federal Fund Target Rate is defined as the interest rate charged by one bank for an overnight loan of money stored at the Federal Reserve to another bank, as determined by the Federal Open Market Committee of the Federal Reserve).

Clearing Broker will provide Broker-Dealer with monthly rebate based on Broker-Dealer's monthly average daily balance in RBC Insured Deposits. The rebate is calculated as follows:

$$\text{Annual Broker-Dealer Rebate} = (\text{SOFR} - \text{Client Rate}) \times 35\%$$

### Margin Balances

Customer margin interest charged in excess of cost of funds, as outlined in the charts below, will be credited to Broker-Dealer. In the event that cost of funds exceeds the customer margin rate, Broker-dealer will be charged the difference.

Total Average Customer Margin Balance for Interest Period	Cost of Funds
All Balances	Broker Call* less 0.75%

\*As published in the Wall Street Journal as Call Money Rate.

## Margin Debit Balances

Broker-Dealer earns the difference between the interest rate charged to you and our cost of funds outlined below in the table:

RBC Express Credit Debit Balance	Percentage Over/Under Base Lending Rate	Interest Rate
\$0 to \$24,999	2.750%	13.000%
\$25,000 to \$49,999	2.250%	12.500%
\$50,000 to \$74,999	1.750%	12.000%
\$75,000 to \$99,999	1.375%	11.625%
\$100,000 to \$249,999	1.125%	11.375%
\$250,000 and over	1.000%	11.250%

Based on the Base Lending Rate. The Base Lending Rate, as of August 2, 2023, is 10.25%

## Credit Interest Program (CIP)

Broker-Dealer will be credited the difference between the Effective Fed Funds Rate (EFFR) + 0.15% and the customer CIP rate, up to the maximum outlined in the chart below. In the event that EFFR is below 50 basis points, and/or the customer CIP rate exceeds EFFR + 0.15%, then no sharing will be paid.

Total Average CIP Balance for Interest Period	Maximum Sharing
Less than \$5,000,000	15 basis points
\$5,000,000 to \$10,000,000	20 basis points
\$10,000,000 & above	25 basis points

## U.S. Government Money Market Fund – RBC Investor Class

Clearing Broker will provide Broker-Dealer with a monthly rebate based on Broker-Dealer's monthly average daily balance in the U.S. Government Money Market Fund, RBC Investor Class. The rebate is calculated as follows:

Annual Broker-Dealer Rebate = \$13.50 basis points less 100% of fees waived by the fund

## Operational and Account Fees

With regards to the Operational Fees and Account Fees charged directly to your account by RBC Clearing & Custody, we receive a portion of the following fees:

<u>Fee</u>	<u>Amount Paid to Us</u>
Investment Account Transfer to Another Broker-Dealer:	\$35.00 per account
IRA – Termination Fee:	\$35.00 per event

## Operational Fees Charged Directly to your Account by RBC Clearing & Custody

RBC Clearing & Custody receives compensation for various operational services provided to you through a brokerage account. We do not share in those fees. Their fee schedule for these services is as follows:

TYPE OF FEE	FEE AMOUNT
<b>Cash Management Account (CMA)</b> Cash Management Account (Credit Card and Check Writing)	Fee Waived
<b>Check Orders</b> Initial order of standard checks Re-order standard checks Initial order of optional check stock Re-order of optional check stock Check/deposit form re-orders Overnight delivery of checks First class delivery of checks	Free Varies Varies Varies Varies Variable \$5.00
<b>Other Checking Related fees</b> Insufficient Funds ACH Stop Payment Returned or Rejected ACH item Returned Check	\$30.00 \$20.00 \$30.00 \$30.00
<b>Visa Platinum Debit Card</b> First two VISA Platinum Debit cards per account Additional Visa Platinum Debit cards Overnight delivery of VISA card	Free \$10.00/each 25.00
<b>Other Fees</b> Alternative Investment - Transaction Fee Alternative Investment - Annual Maintenance Fee Prepayment Extension Overnight Check Duplicate Documents - Paper Copies (Confirms, Statements, Tax Documents)	\$100.00 / Occurrence \$100.00 / Position / Account Margin Rates/Interest Charged \$10.00 \$10.00 \$1.25
<b>Transfer Fees</b> Investment Account Transfer to Another Broker Dealer Outgoing IRA Account Transfer Fee Physical Certificate Reject Fee IRA – Closing Fee Security Safekeeping Position Fee	\$95.00 \$120.00 \$200.00 \$120.00 \$50.00/year
<b>Wire Transfer Fees</b> Domestic International	\$25.00 \$75
<b>Cashiering Fees</b> Deposit/Withdrawal at Custodian (DWAC) Fee	Pass through at Cost

## Trade Corrections

Your registered representative is responsible for any errors that occur in trade activity and is not passed on to you.

## Compensation for Termination of Services

Other than IRA termination fees (when applicable) and account transfer fees, we would not receive any additional compensation in connection with the termination of its services. If you have questions or need additional copies, contact your registered representative.

# Conflicts of Interest

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Conflicts of interest exist when we provide brokerage services to you. A conflict of interest is a situation in which we engage in a transaction or activity where our interest is materially adverse to your interest. The mere presence of a conflict of interest does not imply that harm to your interests will occur, but it is important that we acknowledge the presence of conflicts. Moreover, our regulatory obligations require that we establish, maintain, and enforce written policies and procedures reasonably designed to address conflicts of interest associated with our recommendations to you.

Our conflicts of interest are typically the result of compensation structures and other financial arrangements between us, our registered representatives, our clients, and third parties. We offer a broad range of investment services and products, and we receive various forms of compensation from our clients, affiliated and non-affiliated product providers and money managers, and other third parties as described above. Securities rules allow us, our registered representatives, and our affiliates to earn compensation when we provide brokerage services to you. However, the compensation that we and our registered representatives receive from you varies based on the product or service you purchase, which creates a financial incentive to recommend investment products and services that generate greater compensation for us.

We are committed to taking appropriate steps to identify, mitigate and avoid conflicts of interest to ensure we act in your best interest when providing brokerage recommendations to you. Below you will find additional information related to our conflicts of interest. This information is not intended to be an all-inclusive list of our conflicts but generally describes those conflicts that are material to your brokerage relationship. In addition to this disclosure, conflicts of interest are disclosed to you in your account agreement(s) and disclosure documents, our product guides, and other information we make available to you.

## Compensation We Receive from Clients

### Transaction-based conflicts

In your brokerage account, you pay certain fees (commissions and sales charges) in connection with the buying and selling of each investment product, including mutual funds, variable annuities, alternative investments, exchange traded funds, equity securities, and bonds. Where these fees apply, the more transactions you enter into, the more compensation that we and your registered representative receive. This compensation creates an incentive for us to recommend that you buy and sell, rather than hold, these investments. We also have an incentive to recommend that you purchase investment products that carry higher fees instead of products that carry lower fees or no fees at all.

### Markups and Markdowns for Principal Transactions

When you buy or sell securities in a brokerage account for a non-advisory customer, and in accordance with industry regulations, we may impose a markup (increase) or markdown (decrease) in the price of transactions we execute on a principal basis. We are compensated based upon the difference (mark-up) between the price you pay for securities purchased from us and the price we sell such securities to you over the prevailing market price or the difference (markup) between the price you sell securities to us and the price we purchase such securities from you over the prevailing market price. We maintain policies and procedures reasonably designed to help ensure compliance with the mark-up and mark-down industry rules.

### Account Maintenance and Other Administrative Fees

While RBC Clearing & Custody charges account maintenance and other administrative fees with respect to the services we provide or make available to you through your brokerage account, we do not share in those fees and charges. However, we do share in the termination charges set forth above to offset our administrative handling costs related to the transfer of your account.

## Compensation We Receive from Third Parties

For non-advisory accounts, third-party payments we receive may be based on new sales of investment products, creating an incentive for us to recommend you buy and sell rather than hold investments. In other cases, these payments are made on an ongoing basis as a percentage of invested assets, creating an incentive for us to recommend that you buy and hold investments (or continue to invest through a third-party manager or adviser).

The total amount of payments we receive varies from product to product. It also varies from the compensation we receive in connection with other products and services we may make available to you. We have an incentive to recommend investment products and services that generate greater payments to us. This compensation generally represents an expense embedded in the investment products and services that is borne by investors, even where it is not paid by the Product Sponsor and not directly from the investment product or other fees you pay. The types of third-party compensation we receive include:

- **Revenue Sharing.** Margin interest, cash credit balances, FDIC Money Market Sweep, and other sharing received and negotiated with RBC Clearing & Custody are included in the transaction costs outlined above.
- **Trail Compensation.** Ongoing compensation from Product Sponsors may be received by us and shared with our registered representatives. This compensation (commonly known as trails, service fees, or Rule 12b-1 fees in the case of mutual funds) is typically paid from the assets of the investment product under a distribution or servicing arrangement and is calculated as an annual percentage of invested assets. The amount of this compensation varies from product to product. We have an incentive to recommend that you purchase and hold interest in products that pay us higher trails.

## Additional Compensation and Benefits from Third Parties

We and our registered representatives, associates, employees, and agents receive additional compensation **from** other third parties, including:

- Payment or reimbursement for the costs associated with education, training, or marketing events that are attended by our employees, agents, and Registered Representatives.
- RBC Clearing & Custody provides services to us, including research, execution, brokerage, custody, and access to mutual funds and other investments. Additionally, other services provided assist us in managing and administering clients' accounts. These services are provided based in part on the assets held at the respective custodians and, as such, create an incentive for us to direct clients to their custodial platforms.

The amount of these payments or benefits is not dependent or related to the level of assets you or any other of our clients invest through us.

## Product Share Classes

Some Product Sponsors offer multiple structures of the same product (e.g., mutual fund share classes), with each option having a unique expense structure and some having lower costs to you as compared to others. For non-advisory accounts, we are incentivized to make available those share classes or other product structures that will generate the highest compensation to us.

## Compensation Related to Proprietary Products

We do not offer proprietary products.

## Compensation Related to Our Affiliates

We earn compensation from the sale of insurance products to our brokerage customers. The amount of this compensation varies from insurance product to product. We have an incentive to recommend

that you purchase insurance products to increase insurance compensation. However, we maintain policies and procedures designed to ensure that the recommendations to purchase insurance products are suitable for your needs and in your best interest.

## **Compensation Received by Registered Representatives**

Registered representatives are compensated in a variety of ways based on the percentage of revenue generated from sales of products and services to clients and/or total assets under advisement, including brokerage account activity. This compensation may vary by the product or service associated with a brokerage recommendation. In addition to upfront-transaction based compensation, some products feature on-going residual or “trail” payments. Thus, registered representatives are incentivized to recommend products that have higher fees as well as those with on-going payments. Notwithstanding that conflict, we have controls established to identify and mitigate this risk.

Typically, a registered representative’s payout schedule (periodically adjusted by us at our discretion) increases with production and asset levels. The same payout schedule is reduced when registered representatives discount certain client fees and commissions or client relationship asset levels are below minimums established by us from time to time. As a result, registered representatives have an incentive to provide brokerage recommendations that result in selling more investment products and services, as well as investment products and services that carry higher fees. Registered representatives also have an incentive to provide brokerage recommendations to gather more assets under management and to increase brokerage trading activity, and to reduce the amount of discounts available to you.

Registered representatives have an incentive to recommend you rollover assets from a Qualified Retirement Plan (“QRP”) to a brokerage Individual Retirement Account (“IRA”) because of the compensation they will receive. We maintain policies and procedures designed to ensure that rollover recommendations are in your best interest.

Brokerage accounts do not feature an on-going fee based on assets under management. Registered representatives are incentivized to recommend you transition your brokerage services account to an advisory account to generate on-going revenue where your brokerage account has minimal activity. Further, registered representatives are incentivized to recommend you transition your brokerage account to an advisory account after you have already placed purchases resulting in commissions and/or other transaction-based brokerage fees. We have controls established to identify and mitigate this risk. Registered representatives also have an incentive to provide higher levels of service to those clients who generate the most fees.

Non-cash compensation is provided to registered representatives in the form of business expense accounts and certain titles. Registered representatives are also compensated in the form of education meetings. Portions of these programs may be subsidized by external vendors and affiliates, such as mutual fund companies, insurance carriers, or money managers. Consequently, product providers that sponsor and/or participate in education meetings gain opportunities to build relations with registered representatives, which could lead to sales of such product provider’s products. Registered representatives may also receive promotional items, meals, entertainment, and other non-cash compensation of up to \$100 per year for gifts.

## **Other Registered Representative Activities**

Registered Representatives may be motivated to place trades ahead of clients in order to receive more favorable prices than their clients. To address this conflict, we maintain policies and procedures and a Code of Ethics designed to ensure you obtain the best execution on your securities transactions executed through us.

# Additional Resources

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<u>Title</u>	<u>Web Address</u>
HPO From CRS, DOL Fiduciary Disclosure & Legal Disclosures	<a href="https://www.hpo.com">https://www.hpo.com</a>
FINRA	<a href="https://www.finra.org/">https://www.finra.org/</a>
SIPC	<a href="https://www.sipc.org/">https://www.sipc.org/</a>
BrokerCheck	<a href="https://brokercheck.finra.org/">https://brokercheck.finra.org/</a>
RBC Services Disclosures	<a href="https://www.rbcclearingandcustody.com/en-us/legal/">https://www.rbcclearingandcustody.com/en-us/legal/</a>
Certificate of Deposit Disclosure	<a href="https://www.rbcclearingandcustody.com/rbcclearingandcustody/en-us/wp-content/uploads/sites/4/2023/01/certificate-of-deposit-disclosure-statement.pdf">https://www.rbcclearingandcustody.com/rbcclearingandcustody/en-us/wp-content/uploads/sites/4/2023/01/certificate-of-deposit-disclosure-statement.pdf</a>
Designation of Responsibilities	<a href="https://www.rbcroyalbank.com/investments/_assets-custom/pdf/107305.pdf">https://www.rbcroyalbank.com/investments/_assets-custom/pdf/107305.pdf</a>
Margin Disclosure	<a href="https://www.rbcclearingandcustody.com/en-us/wp-content/uploads/sites/4/2023/01/margin-disclosure-statement.pdf">https://www.rbcclearingandcustody.com/en-us/wp-content/uploads/sites/4/2023/01/margin-disclosure-statement.pdf</a>
Cash Sweep Program Overview:	<a href="https://wpvip.rbcwealthmanagement.com/assets/wp-content/uploads/documents/legal/wm-cash-sweep-overview.pdf">https://wpvip.rbcwealthmanagement.com/assets/wp-content/uploads/documents/legal/wm-cash-sweep-overview.pdf</a>