

# CREAND SECURITIES and CREAND MANAGEMENT – Regulation Best Interest Disclosures

This disclosure provides information about the business practices, compensation and conflicts of interest related to the collective brokerage and advisory business of Creand Securities (herein referred to as “CS”, “Creand Securities”, or the “Firm”) and Creand Management (“CM”, “Creand Management”, or the “Adviser”) (referred to collectively as, “we,” “us,” the “Company”, “CWM”, or “Creand Wealth Management”).<sup>1</sup> Additional information about CS and CM and its financial professionals are available on FINRA’s website at <http://brokercheck.finra.org> or via the SEC’s website at <https://adviserinfo.sec.gov>.

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<sup>1</sup> Creand Wealth Management is the brand name for the wealth management business conducted by Beta Capital Securities, LLC, who conducts business under Creand Securities, LLC (CS), and its affiliate Beta Capital Management, LLC, who conducts business under Creand Management (CM). Brokerage products and services are offered through CS, a member of FINRA, NFA, MSRB and SIPC. Advisory services are offered through CM. CS and CM are affiliated companies under the common control of Credit Andorra Financial Group

## 1. INTRODUCTION

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Creand Securities is a broker-dealer registered with the Securities and Exchange Commission (SEC) and member of the Financial Industry Regulatory Authority (FINRA), National Futures Association (NFA), and Municipal Securities Rulemaking Board (MSRB). As a broker-dealer, CS transacts business in various types of securities, including mutual funds, exchange-traded funds (ETFs), stocks, bonds, options, real estate investment trusts (REITs), private placements, municipal securities, options, and other investment products, while offering such services to clients located domestically, as well as outside of the U.S. The Firm is also authorized to trade securities for its own account.

Creand Management is a registered investment adviser with the SEC that provides advisory services to individuals, including high net worth individuals, pension plans, trusts, corporations or other business entities domiciled or residing in the United States, Latin America and other countries abroad. Clients may choose CM to manage a portion or all of their assets on a discretionary or non-discretionary basis. Creand Securities and Creand Management, collectively, operate under the brand name, Creand Wealth Management (“CWM” or the “Company”). CWM maintains a network of individuals, referred to as “financial professionals”, who offer brokerage services, investment advisory services, or both, depending on their licenses and qualifications. Some of CWM’s financial professionals are investment adviser representatives (IARs) of CM, registered representatives (RRs) of CS and/or are dually associated and registered with both CM and CS. Certain financial professionals of CWM are independent contractors of non-affiliated third-party U.S. registered and/or non - U.S. brokerage firms and/or investment advisory firms. These individuals are typically referred to as Foreign Associates.

Foreign Associates are typically dispersed abroad and market the offering and services of Creand Wealth Management solely to non-U.S. persons. The Company’s RRs and/or IARs also hold corporate titles. Corporate titles such as Vice President, Senior Vice President and Managing Directors are given to financial professionals based on their overall production levels. Creand Wealth Management professionals may have other “business activities” as well as private investments that are aside from and in addition to their securities brokerage and/or advisory business with Creand Wealth Management. These “other activities” are referred to as “Outside Business Activities” (OBAs). You should be aware that there may be times that your respective RR’s OBAs may present a conflict with their recommendations, solicitation of products, and other services they are providing to you. Pursuant to FINRA and SEC rules and regulations, RRs must disclose and make public all OBAs, including the nature and time dedicated to the OBA. Because each scenario will be unique to you and your relationship with your RR, we encourage you to search the name of your RR in <https://brokercheck.finra.org/> or <https://adviserinfo.sec.gov/firm/summary/154894>. There you will gain access to all material disclosures relevant to your RR, including any OBA he or she may have.

Although most financial professionals offer both brokerage and investment advisory services, some only offer brokerage services and others only offer investment advisory services. **When you are discussing services with your Creand Wealth Management financial professional, you should ask in what capacity the financial professional is acting or will be acting in regards to the services that he/she will be providing you.**

This disclosure document discusses important information regarding financial professionals who act as RRs of CS and IARs of CM. For more information about CWM and its financial professionals, please see CWM’s Client Relationship Summary (Form CRS), Form ADV disclosure brochures available at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) and [www.brokercheck.finra.org](http://www.brokercheck.finra.org). For additional information on which type of investment account is right for you, please contact your CWM financial professional.

When you enter in a relationship with Creand Securities, you will be establishing a brokerage account. While the Firm may provide you investment advice in relation to your brokerage account, the investment advice will be incidental to the securities transactions that is recommended to you in your brokerage account. As a broker-dealer, all recommendations that CS provides regarding your brokerage account will be made in a broker-dealer capacity and not in an investment advisory capacity. This means that CS does not have the

authority to act on a discretionary basis in your brokerage account or charge a fixed fee on your account based on assets under management. Your written or verbal approval will be required before any securities transaction can take place in your account. Additionally, CS will monitor your account activity on a post transaction basis periodically in order to determine whether the securities investments and holdings in your brokerage account are in your best interest. When CS makes a recommendation to purchase and sell securities in your brokerage account, it will do so only if the Firm believes that it is in your best interest to enter into such transactions and strategies. CS will determine if a recommendation is in your best interest by considering the following, amongst other factors:

- Investment Objective;
- Risk Tolerance;
- Time Horizon;
- Liquidity Needs;
- How the security is related to your overall investment goals;
- How the recommendation is consistent with your stated investment strategy;
- Costs and fees associated with the security and transaction, and;
- Possible conflicts of interest that may be present.

You should be aware that while the Firm will take all available measures and efforts in developing an investment strategy and/or securities recommendations on your behalf, investments in securities involve risks and you may lose your entire principal and initial investment. As such, CS cannot guarantee that you will meet your investment goals, or that our recommended investment strategy will perform as expected. Please consult any available offering documents for any security the Firm recommends to you for a discussion of risks and fees associated with the product.

Creand Securities and its RRs are compensated directly by customers and indirectly from the investments made by customers. Customers of CS pay a commission or a sales load at the time of the transaction, and in certain investment products, a deferred sales charge. This type of compensation structure means that the Firm is compensated based on the number of transactions a customer executes. The more transactions a customer executes, the more compensation the Firm's RRs earn. In addition, CS will receive ongoing compensation from certain investments and products (e.g. mutual funds), typically referred to as "trails", for as long as the customer holds that specific investment. In addition, we may also receive additional compensation from sponsors of certain mutual funds that customers purchase through us. As such, we may have an incentive to recommend only certain mutual funds. ***(Please see mutual fund section of this disclosure document for further details).***

When you establish an advisory account with CM, your IAR will be compensated by a fixed percentage compensation based on the total assets under management in your CM account. As such, CM financial professionals have an incentive to recommend you to bring more assets to CM, as the higher value of your account, the more compensation will be earned. You should speak with your IAR in order to determine which type of account/relationship provides you with products and services that is more cost effective for you and in your best interest.

Please also note that not all of conflicts described in this disclosure apply to a particular financial professional, or all the products and services we recommend. The types of and amount of compensation we will receive change over time. You should ask your financial professional should you have any questions about compensation earned by CWM, costs, fees, and/or any conflicts of interest associated with your account.

## 2. COMMISSIONS, FEES AND OTHER TYPES OF SALES COMPENSATION

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### 2.1. Commissions and Sales Charges

CS receives upfront commissions when it executes transactions that result in the purchase or sale of a security. A commission, which also may be called a sales load, sales charge or placement fee, is typically paid at the time of the sale and can reduce the amount available to invest or can be charged directly against an investment. Commissions are often based on the amount of assets invested. CS receives the sales charge or commission and shares it with your financial professional. In some cases, a portion of the sales charge or commission is retained by the mutual fund investment's sponsor. Commissions vary from product to product, which may create an incentive to sell a higher commission product rather than a lower commission one. The maximum and typical commissions for common investment products are outlined in CS Commission and Fee Schedule available at <https://creand.us> and described throughout this disclosure document. For more information about other commissions that apply to a particular transaction, please refer to the applicable investment's prospectus and other related offering memorandum.

- **Equities and Other Exchange Traded Securities:** The maximum commission charged by CS in an agency capacity on an exchange-traded security transaction, such as an equity, option, ETF, exchange traded note (ETN) or closed-end fund (CEF), is 3% of the transaction amount. In limited circumstances, the RR can choose to discount the commission amount to zero and charge the standard \$50.00 ticket charge.
- **Mutual Funds (Offshore):** The lesser of the maximum commission of 3% or sales charge permitted under the Mutual Fund Sponsor schedule. Depending on the type of the mutual fund share class purchased for the client, we may receive ongoing compensation from the mutual fund in the form of trails.
- **Structured Products (Notes):** Overall compensation percentages vary by issuer and product. In certain cases, certain issuers provide certain structured notes at a discount to CS, who acts as the distributing broker-dealer. In turn, CS sells the structured notes at par and then retains the difference as compensation as part of its distribution arrangement. The amount of the discount can be as high as 3.75% and this amount (the retrocession) is shared amongst us and the respective RR.

### 2.2. Markups and Markdowns – Principal or Dealer Transactions

When CS buys from or sells a security to you in a principal capacity, we buy or sell the security directly from you, rather than act as your agent to buy or sell the security from a third party. These transactions are also known as “dealer transactions.” In these circumstances, if we sell a security at a price higher than what we paid for it, we will earn a markup. Conversely, if we buy a security from you at a price lower than what we sell it for, we will earn a markdown. Transactions in bonds and other fixed-income securities such as structured products often occur as dealer transactions.

The maximum markup/markdown on a transaction with a customer that we receive when acting in a principal capacity typically does not exceed 3% of the value of the transaction. On rare occasions, a markup/markdown may exceed 3% on a deeply discounted security or illiquid security. In many cases, the actual markup/markdown percentage is lower based on factors such as quantity, price, type of security, rating, maturity, amongst others. CS's Commission and Fee Schedule are available at <https://creand.us>

### 2.3. Brokerage Practices

From time-to-time, Creand Securities will also buy from or sell a security directly from/to clients, this usually happens when a client is holding a fixed income security that does not meet the minimum quantity to be sold in the open market and it is sold internally to another advisory client or we can improve the price by taken the mid-market price between bid and ask price and afford a better price to the client. In an advisory account, CM will only engage in these types of transactions in accordance with SEC rule 206-3 and with prior written consent from the client selling the security and from the client that is buying the security. Further, on an annual basis, CM will provide to the client a written disclosure summary statement identifying the total number of transactions during the period since the date of the last statement or summary and the total amount of all commissions and/or remuneration received during the relevant time period. If CM engages in this type of transaction, it would only do so under on an Agency Cross basis and there will be no mark-up or mark-down assessed for the transaction. However, there will be an executing ticket charge of \$50.00.

### 2.4. Direct Fees and Charges

If you hold an account with CWM, there will be a yearly maintenance fee assessment along with other miscellaneous fees assessed directly to your account such as transaction processing fees, wire fees, custody fees, and account transfers fees, amongst others. These direct fees and charges are set out in the Miscellaneous Account and Service Fee Schedule located at: <https://creand.us>. These fees and charges are not shared with CWM financial professionals, and are not applicable if you choose to hold your investment directly with the product sponsor rather than with CWM.

### 3. THIRD PARTY COMPENSATION

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The Firm and its financial professionals receive compensation from investment product sponsors and other third parties in connection with investments that CS customers make in products such as mutual funds, and alternative investments. Some types of third-party compensation are received by CS and/or CM and shared with its financial professionals, and other types are retained solely by CS or CM. For more information about the third-party compensation the Firm receives, the investment product sponsors and other third parties that pay CS the compensation, and related conflicts of interest, please see below.

#### 3.1. Third Party Compensation Shared by Beta Capital and Financial Professionals Trail Compensation

CS and its financial professionals may receive ongoing compensation from certain investment products such as mutual funds, and alternative investments. This compensation (commonly known as trails or 12b-1 fees) is typically paid from the assets of the investment product under a distribution or servicing arrangement with the investment sponsor and is calculated as an annual percentage of assets invested by CS customers. The more assets you invest in the product, the more we will be paid in this type of compensation. Therefore, we have an incentive to encourage you to increase the size of your investment. The amount of trails received varies from product to product. This creates an incentive to recommend a product that pays a higher trail rather than a lower trail. We also have an incentive to recommend a product that pays trails (regardless of amount) rather than products that do not pay trails. For more information about trail compensation received with respect to a particular investment, please refer to the prospectus or offering document for the specific investment.

- **Mutual Funds and 529s:** The ongoing payment depend on the class of shares and is typically between the range of 0.25% and 1% of total assets, on an annual basis.
- **Structured Products (Notes):** CS may receive trail payments from the respective issuer for the promotion, and sale of a structured product. The amount and timing of trail payments vary depending on the selling agreement between Creand Securities and the issuer, and the type of structured product purchased.

#### 3.2. Concessions and Mutual Fund Finder's Fee

In certain cases, CS and its financial professionals receive compensation from a mutual fund sponsor in connection with transactions for which sales charges are waived or under other circumstances and as described in a fund's offering documents. This compensation is generally referred to as a finder's fee or concession and typically ranges between 0.25% and 1% of the transaction amount. As previously mentioned, the Firm also receives concessions from investment sponsors for other types of investments. These concessions vary from product to product, and are generally shared between CS and the RR. Concessions can be as high as 0.25% of the transaction amount for new issues of certificates of deposit, municipal bonds and other short-term dated bonds, up to 3% of the transaction amount for structured products, and up to 4% of the transaction amount for closed end funds (CEFs).

#### 3.3. Non-Cash Compensation

CS and its financial professionals may receive non-cash compensation from investment sponsors that is not in connection with any particular customer or investment. Non-cash compensation includes such items as an occasional dinner or ticket to a sporting event, reimbursement in connection with educational meetings, customer workshops or events, and marketing or advertising initiatives which include services for identifying prospective customers. Investment sponsors also pay, or reimburse the Company and/or its financial

professionals, for the costs associated with education or training events that may be attended by CS employees and financial professionals and for Company sponsored conferences and events.

### 3.4. Third Party Compensation Retained by Creand Securities Cash Sweep

For accounts held at the Firm by way of its designated clearing firm, Broadridge, uninvested cash balances are automatically invested in money market sweep funds such as Invesco and Blackrock. CS receives compensation for its marketing efforts from the money market fund sponsors. These payments are in addition to other fees and compensation received by the Firm which may include, but not limited to: 12b-1 fees, marketing and distribution fees along with other miscellaneous fees. Customers should compare the terms, interest rates, required minimum amounts and other features of the money market sweep program with other types of accounts and investments for cash. This compensation creates an incentive for CS to recommend only specific money market funds.

### 3.5. Credit Cards

When a customer establishes a brokerage account with CS, the Firm makes available for its customers cash management and credit card services through its partnership with American Express. Customers can choose whether to receive this benefit. The Firm does not receive any form of compensation from American Express as a result of this partnership.

## 4. PRODUCT COSTS AND RELATED CONFLICTS

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Financial professionals provide recommendations with respect to a broad range of investment products, including stocks, bonds, exchange traded funds (ETFs), mutual funds, and alternative investments. Each type of investment product carries unique risks, and many investment products charge fees and costs that are separate from and in addition to the commissions and fees that CS and CM financial professionals receive. You can learn more about these risks and the fees and costs charged by an investment product by reviewing the investment product's prospectus, offering memorandum, and/or other the Firm's fee schedule.

Set out below are the risks associated with each asset type/class and the common expenses associated with these assets.

- **Equities/Stocks** – Investments in stocks involve a number of risks. The price of stocks rise and fall on an intraday basis due to various market conditions including, but not limited to: company's financial condition, industry specific risks, market risks and geo-political risks. When you purchase a stock, you pay a commission, as set forth in CS's fee schedule.
- **Exchange Trade Funds (ETFs)** - Similar to stocks, ETFs trade on an intraday basis and are subject to various market conditions. You also pay a commission when you purchase an ETF. There are also expense ratios assessed when you purchase ETFs. - The expense ratios for ETFs can range anywhere between 0.05% to 1.0%.
- **Options** – Listed options are a type of derivative security traded on an exchange. Specifically, options are contracts that grant the right, but not the obligation, to buy or sell an underlying asset at a set price on or before a certain date. Options trading involves substantial risks and is not suitable for all investors. In addition, options may involve significant leverage which may magnify an investor's losses. For more information about options trading, please review the Characteristics and Risks of Standardized Options at [www.theocc.com/about/publications/character-risks.jsp](http://www.theocc.com/about/publications/character-risks.jsp).
- **Mutual Funds** - A mutual fund is an investment company that pools assets from investors and invests the money in stocks, bonds, and other securities or assets. The holdings in a mutual fund are its portfolio. Each share of a mutual fund represents an investor's proportionate ownership of the fund's holdings and the income those holdings may generate. Expense ratios can vary based on the type of mutual fund purchased. The average expense ratio for actively managed funds is anywhere between 0.5% to 1.0% while for passive index mutual funds, the average is 0.2%. **(Please see Section 4.1 on the differences in mutual fund share classes along with associated risks).**
- **Fixed Income/Bonds** – Bond prices rise when interest rates fall and vice versa. Longer-term securities are more prone to price fluctuation than shorter-term securities. Any fixed income security sold or redeemed prior to maturity may be subject to substantial gain or loss. Income is subject to the credit risk of an issuer when making an investment decision. Fixed Income securities are also subject to credit risk. Credit risk is the risk that the issuer of a security may not honor its obligation to pay principal or interest, resulting in a loss to the investor. In addition to the foregoing, fixed income investments (similar to other investments) are also subject to inflation and exchange rate risks. When you purchase a fixed income security, CS charges a mark-up or mark-down for the transaction. A mark-up is the difference between a security's lowest current offering price and the price charged to the client. A mark-down is the difference between the highest current bid price for the security and the lower price that a client receives when selling the security. Please consult with your RR and/or IAR to discuss all risks associated with fixed income securities before investing.

- **Alternative Investments** - Structured Products are fixed tenor securities that establish payoff profiles and details potential benefits and risks linked to market outcomes. The underlying reference assets may include single equity or debt securities, or baskets of reference assets such as commodities, indexes, interest rates and/or foreign currencies. **(Please see Section 4.2 on the risks and fees associated with Structured Products).**
- **Money Market Funds** - Money market funds invest in high-quality, short-term debt securities and pay dividends that generally reflect short-term interest rates. Money market funds are not bank accounts, not FDIC-insured and not guaranteed to maintain their value. The uninvested cash in your brokerage account(s) is automatically swept (invested) into certain partner money market funds. As a result, the Firm does receive retrocessions from these money market fund providers. As such, CS has a financial incentive to choose certain money market fund providers as the primary sweep option. However, please note that CS customers have the option to choose other money market fund providers of their choice. Please also note that these money market funds do not offer CS customers check writing or debit/credit cards privileges.

#### 4.1. Mutual Fund Share Class and Fund Selection

CS transacts primarily in offshore mutual funds which are offered under Regulation S of the Securities Act of 1933. Offshore mutual funds generally offer more than one share class. Class A shares, often referred to as “front load shares” assess a front-end sales charge as high as up to 6% on your initial purchase. As previously mentioned, while the Firm is permitted to assess up to 6% on your initial investment, the Firm’s policy is to charge a maximum of 3%. The sales load is paid to CS and shared with the RR as part of their overall compensation. Class C shares, often referred to as “level load shares” do not assess an upfront sales charge but, rather assesses a contingent deferred sales charge (“CDSC”) of up to 1% (if redeemed within the first year). Please note that the mutual fund distributor typically will pay CS an upfront sales load charge of 1% of the invested amount on Class C shares. Class C shares generally have higher annual expenses and fees (e.g. management and shareholder/distribution fees) than Class A shares. Over the long term, Class C shares are more expensive to hold and own than Class A shares. In certain limited instances, RRs of the Firm may also offer and recommend Class B Shares. Class B shares are similar to Class C shares in that they have higher annual expenses. However, certain Class B shares automatically convert to Class A shares after meeting a minimum holding period. Please refer to the mutual fund family prospectus for conversion features and related fees and expenses for Class B shares.

Please see below summary breakdown of the different classes of mutual fund shares:

- **Class A Shares:** Higher upfront sales charge but lower annual expenses than Class C shares. Suitable for investors with a long-term horizon (e.g. more than 7 years). Not appropriate for short-term trading and switching;
- **Class C Shares:** No upfront sales charge but higher annual expenses than Class A shares. Suitable for investors with shorter time horizon (e.g. less than 5 years). Not economical as a long-term holding
- **Class B Shares:** Similar to Class C shares with the exception that Class B shares automatically convert to Class A shares after meeting a minimum holding period.

#### **Compensation received from Mutual Funds:**

Some share classes of mutual funds (e.g. no-load mutual funds) that we offer pay us ongoing trails. We may also be compensated in other ways by sponsors of no-load funds, such as through revenue sharing payments. Because of the limited compensation from no-load funds, we have an incentive to limit the availability of no-load funds we offer and to recommend you invest in funds that impose sales charges and trails. Regardless of the mutual fund share class recommended, CS will receive ongoing compensation

which may include a combination of 12b-1 fees, marketing and distribution fees, retrocessions, rebates, or service and trailer fees. This compensation is intended to compensate the Firm for its marketing and distribution efforts of funds. The exact amount of 12b-1 fees paid out varies among funds and shares classes but is disclosed in the mutual fund prospectus.

**Shareholder servicing/recordkeeping fees:**

Mutual funds and their affiliates may pay us fees for providing certain administrative services which may include maintaining and updating separate records for each client, preparing and delivering client statements, tax reporting, proxy voting and solicitation, and processing purchase and redemption orders.

**Revenue sharing:**

Separate from the sales charges, 12b-1 fees and shareholder servicing fees described above and in the mutual fund's prospectus, sponsors and distributors may make additional payments to us in certain sales channels based on overall sales and/or total assets. These payments are generally called revenue sharing and are paid from the mutual fund sponsor's revenues or profits, not from the mutual fund's assets.

## 4.2. Risks and Fees associated with Structured Products

- Investments in Structured Products may not be suitable for all investors. These types of investments entail varying degrees of risk and while some Structured Products offer full or partial principal protection, others can result in the loss of the full amount invested. Structured Products are subject to the issuer's financial ability to meet its payout obligations;
- Investing in a Structured Product is not the same as investing directly in an underlying asset. The return on a Structured Product at maturity may not be the same as the return on a direct investment in the underlying asset and the maximum payment on a Structured Product may be subject to a cap which would limit the appreciation potential compared to a direct investment;
- Potential investors should consider whether to invest in Structured Products in light of their own circumstances, investment objectives, tax position and financial condition. Structured Products will be offered by prospectus, term sheet or offering memorandum. The offering document will provide more detailed information regarding the Structured Product. Potential investors should carefully consider all the information and risk factors set forth in the term sheet or pricing supplement along with all the information set forth in the offering memorandum.

**Fees:**

- As previously mentioned, CS is typically paid a distribution fee, which can be as high as 3.75% of the notional amount of the Structured Product. Details on the specific fees and costs associated with each note will be contained in the term sheet for the Structured Product;
- A Structured Product's price will reflect the costs associated with issuing, selling, structuring and hedging the Structured Product and will include compensation to the issuer or its affiliate for the work involved in packaging the security;
- Costs and compensation will vary with each Structured Product. A Structured Product may also include an annual fee embedded in an index or calculation, which will be payable to the issuer or index sponsor for structuring a proprietary index and/or formula;
- In addition, the issue price of a Structured Product purchased in a brokerage account will generally include a fee to compensate CS for its marketing and distribution efforts;

- If a Structured Product has an early redemption feature and is redeemed prior to maturity, the compensation will not be prorated to the period during which the Structured Product was outstanding and, as a result, the rate of compensation will be higher, and;
- Neither CWM or its affiliates render legal or tax advice. Clients are urged to consult with outside tax and legal professionals regarding the potential that the use of Structured Products may generate undesired tax liabilities and penalties.

## 5. CUSTOMER REFERRALS, OTHER COMPENSATION AND OTHER CONFLICTS

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### 5.1. Margin

CS offers customers the ability to purchase securities on credit, also known as margin purchases. When a customer purchases securities on margin, the Firm's custodian extends a line of credit to the customer and charges interest on the margin balance which in turn is shared with the Firm. CS may have a financial incentive to encourage margin borrowing because the Firm earns additional compensation in the form of interest, transaction charges and other fees on investments made with borrowed amounts. That financial incentive creates a conflict of interest insofar as CS and its financial professionals benefit from your decision to borrow and incur the various fees and interest described above. If contemplating use of margin, please consult the Firm's margin agreement and related disclosures for additional details.

### 5.2. Error Correction

If a trade error occurs and is caused by CS, the Firm will cancel the trade from the customer account and remove the monetary loss to the customer from the account. If a trade correction is required as a result of customer negligence (e.g., if a customer does not make full payment for purchases or fails to deliver negotiable securities for liquidations before trade settlement), the Firm will cancel the trade and any resulting monetary loss will be borne by the customer. In the case of a trade that requires a correction and that resulted in a monetary gain to the customer, such gain may be removed from the account and may result in a financial benefit to the Firm.

### 5.3. Limitations on Investment Recommendations

CS and its financial professionals typically offer and recommend investment products only from investment sponsors with which CS has entered into selling and distribution agreements with. You should be aware that other firms may be able to offer products and services not available through CS, or that similar investment products and services can be offered through other Firms at a lower cost. You should ask your financial professional if the product or sponsor recommendation is part of CS' approved products list prior to implementing any recommendation.

The scope of products and services offered by certain financial professionals may also be more limited than what is available through other financial professionals. A financial professional's ability to offer individual products and services depends on his/her licensing and qualifications as well as any Firm restrictions. For example, a financial professional maintaining a Series 6 FINRA license and registration is limited to recommending and offering investment company securities, such as mutual funds and Unit Investment Trusts (UITs). A financial professional maintaining a Series 7 FINRA license and registration is generally able to recommend investment strategies and solutions for all securities such as equities, bonds, mutual funds, and alternative investments as well as those investments offered by a Series 6 representative. Similarly, a CS financial professional may only be licensed and qualified to provide brokerage services, and not advisory services, or vice versa.

You should ask your financial professional about the investment and services he/she is licensed or qualified to provide as well as his/her ability to service the investments that you transfer to CS from another firm. You should also review the licenses held by your financial professional by visiting the FINRA BrokerCheck system at <http://brokercheck.finra.org>.

## 5.4. Investment Advisory Account – Directed Brokerage

When a client retains CM to manage his/her advisory account on a discretionary or non-discretionary basis, the client grants CM the authority to select the broker-dealer(s) that will be used to place and execute the transactions. It is the policy and practice of CM to strive for the best price and qualitative execution that are competitive in relation to the value of the transaction (best execution). In selecting a broker-dealer or other intermediary, CM will consider such factors that in good faith and judgment, it deems reasonable under the circumstances.

CM routinely directs brokerage transactions to CS. Not all investment advisers require their clients to direct brokerage to a particular broker-dealer. By directing brokerage, the client may not be able to achieve best execution and this practice can cost clients more money.

CS assesses CM accounts a brokerage commission related to the cost of executing advisory transactions on behalf of CM customers. Such commissions and fees are maintained solely by CS, which also indirectly benefits the IARs of CM since both entities are under common ownership. CS' execution fees/commissions are in addition to any clearing related fees and charges. These fees are generally in the form of ticket charges for transactions and are separate from advisory fees charged by CM. Based upon this structure, CM (through its common ownership with CS) will receive additional economic benefit (revenues) from the negotiated fee schedules or additional services based on the transaction volume attributable to the advisory accounts.

CM evaluates certain factors in connection with its selection of CS as its primary designated broker-dealer for advisory customer accounts. Listed below are the primary considerations CM weighs in its evaluation of its arrangement with CS in relation to other broker-dealers:

- CS has expertise in local markets and types of securities desired;
- CS has the ability to source and execute directly in different types of securities;
- CS is a qualified custodian and as such, is able to provide timely and efficient settlement of transactions;
- CS offers competitive commission rates, ticket charges as well as other fees in comparison to other broker-dealers and clearing firms;
- Responsiveness of CS trading desk and efficiency of trade execution, and;
- The overall reputation and professional integrity of CS.

However, due to the common ownership, and dual association of its financial professionals CM maintains a conflict of interest and will have an incentive to recommend and execution transactions through CS.

## 6. FINANCIAL PROFESSIONAL COMPENSATION, FEES AND RELATED CONFLICTS

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CS compensates certain of its financial professionals pursuant to an independent contractor agreement, and others as employees. Listed below are compensation and other benefits that independent contractor financial professionals receive from CS.

### 6.1. Variable Compensation

CSs typically pays its financial professionals a percentage of the revenue he/she generates from sales of individual products and services, as well as a portion of the collective percentage of overall revenues generated. The percentage received can vary depending on his or her agreement with CS and the investment product or service recommended, and can be more or less than what he/she would receive at another brokerage firm. The payments can include a bonus that is based on the amount of assets serviced or revenue generated by the financial professional. When compensation is based on the level of production or assets, the financial professional has a financial incentive to meet those production or asset levels. In addition, the Firm's RRs may pay compensation to its sales assistants based on sales of products and total assets under management. This may create a conflict of interest because the compensation may affect the sales assistant's ability to provide objective judgement and decision making in its day-to-day activities. Further, the amount of revenue a financial professional generates may create a conflict of interest and impact the Firm's ability to objectively consider whether to terminate a financial professional for wrongdoing and violation of policies and procedures.

### 6.2. Other Benefits

CS charges financial professionals various fees under its independent contractor agreement for, among other things, trade execution, administrative services, insurance, and possibly certain outside business activity related supervision, technology and licensing expenses and fees. Depending on the situation, these fees make it more or less profitable for the financial professional to offer and recommend certain services or products over others. In certain cases, these fees are reduced based on the financial professional's overall business production or the amount of assets serviced by the financial professional, which gives the financial professional an incentive to recommend that you bring more assets or engage in more frequent transactions. Transaction fees charged to your financial professional can also vary depending on the specific security and/or strategy that the financial professional recommends.

### 6.3. Recruitment Compensation for RRs

If a financial professional recently became associated with CSs after working with another financial services firm, he/she may receive recruitment compensation from CS in connection with the transition. In many cases, this transition assistance includes payments from CS that are commonly intended to assist a financial professional with costs associated with the transition; however, CS does not verify that any payments made are actually used for transition costs. These payments can be in the form of repayable or forgivable loans, and are subject to favorable interest rate terms, as compared to other lenders. In the case of forgivable loans, the loans are generally subject to repayment if the financial professional leaves CS before a certain period of time or other conditions are not met.

The amount of recruitment compensation is often significant in relation to the overall revenue earned or compensation received by the financial professional at his or her prior firm. Such payments are generally based on the size of the financial professional's business established at his/her prior firm, for example, a percentage of the revenue earned or assets serviced at the prior firm, or on the size of the assets that transition to CS. The receipt of this compensation creates a conflict of interest in that the financial

professional has a financial incentive to recommend that a customer open and maintain an account with CS for advisory, brokerage and/or custody services, and to recommend switching investment products or services when it may not be in the customer's best interest to do so.

#### 6.4. Financial Professional's Outside Business Activities

Financial professionals of CWM are permitted to engage in certain outside business activities other than the provision of brokerage and advisory services through CWM and in certain cases, a financial professional could receive more compensation, benefits and non-cash compensation through the outside business than through CWM. Some financial professionals (e.g. Foreign Associates) of CWM may be general partners, limited partners, directors, board members of other financial or non-financial institutions, and these financial professionals may also refer customers to those other service providers and receive referral fees. For example, a financial professional could provide advisory or financial planning services through an unaffiliated investment advisory firm, or sell fixed insurance products separately through an insurance agency not affiliated with CWM. In those circumstances, the financial professional would be subject to the policies and procedures of the third-party insurance agency related to the sale of insurance products and would have different conflicts of interest than when acting on behalf of CWM. A financial professional may earn compensation, benefits and non-cash compensation through the third-party insurance agency and may have an incentive to recommend you purchase insurance products away from CS. If you engage with a financial professional for services separate from CS, you may wish to discuss with him/her any questions you have about the compensation he/she receives from the engagement as well as the amount of time they dedicate to serving CS customers. Additional information about your financial professionals' disclosed outside business activities is available on FINRA's website at <http://brokercheck.finra.org>. You can also ask your CM financial professional for a copy of their most recent Form ADV Part 2B Supplement for those individuals associated with CM.

#### 6.5. Compensation for Other Services

CWM and its financial professionals can offer various types and combinations of advisory and brokerage programs, platforms and services, and earn differing types and amounts of compensation depending on the type of service, program or platform in which you participate. This variation in compensation can incentivize a financial professional to recommend services, programs or platforms that generate more compensation than others. For example, if you expect to trade securities frequently in your account, a brokerage account in which you pay a commission for each transaction may generate more compensation for your financial professional than an advisory account that generates compensation in the form of investment advisory fees based on total assets under management.

## 7. OTHER FINANCIAL INDUSTRY AFFILIATIONS

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We are affiliated with other financial services companies located outside the United States. They are as follows:

- Credit Andorra SA, leading private banking group in Andorra;
- Credi-Invest S.A, broker dealers and Credit Assegurances, an insurance company regulated and under the supervision of the Andorran National Institute of Finance;
- Banco Alcala, S.A. a banking institution under the regulatory supervision of the Bank of Spain;
- Credit Andorra Asset Management Luxembourg, a management company governed by Chapter 15 of the UCITS Law of 17<sup>th</sup> December 2010;
- Banque de Patrimoines Privés, a broker dealer under the regulatory supervision of the Commission to Surveillance of the Financial Sector of Luxembourg;
- CA Mexico Asesores Patrimoniales en Inversiones Independientes, SACV, a broker dealer/investment advisor regulated by the Mexican Association of Independent Investment Advisors;
- CA Mexico Gestoria Sapi, a broker dealer regulated by Mexico's National Commission for Banking and Securities;
- CA Life Insurance Experts Cia de Seguros y Reaseguros, SAU, an insurance company regulated by the National Commission of Securities Markets of Spain;
- Private Investment Management Advisors, Panama, an investment advisor regulated by the Panamanian Securities and Exchange Commission;
- Gesacala SGIC, SAU, a broker dealer under regulatory supervision of the Spanish National Commission of Securities Markets in Spain;
- Banco Credit Andorra (Panama) and Credit Andorra Panama Patrimonial, banking institutions;

We do not share office space and do not receive or share in any transaction-based compensation and/or advisory fee revenue from our affiliates. We do, however, receive other forms of revenue generated from the trading activity from clients referred to us from our affiliates which are generally comprised of the following: ticket charges, custody fees and other related settlement fees.