



## **KCD Financial, Inc. Brokerage Compensation and Conflicts Brochure**

This disclosure provides information about our business practices, compensation and conflicts of interest related to the securities business of KCD Financial, Inc. (KCD – also referred to as “we” or “US”). Additional information about KCD and its registered representatives is available on FINRA’s website at <http://brokercheck.finra.org>. If you have questions or concerns regarding anything in this disclosure brochure, please contact us in writing.

### **INTRODUCTION**

KCD is a broker-dealer registered with the Securities and Exchange Commission (SEC) and a member of the Financial Industry Regulatory Authority (FINRA). KCD is also registered as an investment adviser with the SEC. In addition, KCD is qualified to sell insurance products in all 50 states. As a broker-dealer, KCD transacts business in various types of securities, including mutual funds, exchange-traded funds (ETFs), stocks, bonds, options, private and public partnerships, variable annuities, real estate investment trusts (REITS), business development companies, Delaware Statutory Trusts (DSTs), closed-end interval funds and other investment products.

KCD maintains a network of individuals, referred to as “representatives”, who offer brokerage services, investment advisory services, or both, depending on their licenses. Some of KCD’s representatives are investment adviser representatives (IARs) of KCD. Investment adviser representatives may also be referred to as “financial advisers” or “advisers”. KCD’s representatives are independent contractors and are dispersed throughout the United States and often operate under their own business name.

Although many representatives 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 a representative, you should ask what capacity the representative is acting or will be acting – as a broker-dealer registered representative and/or an investment advisory representative – when providing services to you.**

This disclosure discusses important information regarding representatives who act as registered representatives of KCD’s broker-dealer. For more information about KCD and the services representatives provide when they act as investment advisory representatives, please see KCD’s Form ADV disclosure brochure available on [kcdfinancial.com](http://kcdfinancial.com). For additional information on which type of investment account is right for you, please see KCD’s Form CRS (Customer Relationship Summary) that can be found at [kcdfinancial.com](http://kcdfinancial.com).

Like all financial services providers, KCD and its representatives have **conflicts of interest**. KCD and its representatives are compensated directly by customers and indirectly from the investments made by customers. When customers pay us, we typically get paid an upfront commission or sales load at the time of the transaction and, in some cases, a deferred sales charge. If we are paid an upfront commission, it means that we are paid upfront commissions for each additional transaction a customer makes. When we are paid indirectly from the investments made by customers, we receive ongoing compensation, typically called a “trail” payment, for as long as a customer holds an investment. In

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In addition, we receive compensation from the sponsors of some of the investment products that customers purchase through us. The amount we receive varies depending on the particular type of investment a customer makes. The compensation described in this disclosure represents the maximum gain or profit we receive on an investment before the subtraction of our expenses.

Please also note that not all of the conflicts described in this disclosure apply to a particular representative, his/her services or all the products we sell. The types and amounts of compensation we receive change over time. You should ask your representative if you have any questions about compensation, costs, fees, or conflicts of interest.

## **COMMISSIONS, FEES AND OTHER TYPES OF SALES COMPENSATION**

### **Commissions and Sales Charges**

KCD 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 transaction, 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 being invested. KCD receives the sales charge or commission and shares it with your representative. In some cases, a portion of the sales charge or commission is retained by the investment's sponsor. Commissions vary from product to product, which creates an incentive to sell a higher commission security rather than a lower commission security. The maximum and typical commissions for common investment products are listed below. For more information about other commissions that apply to a particular transaction, please refer to the applicable investment's prospectus or other offering document.

- **Equities and Other Exchange Traded Securities.** The maximum commission charged by KCD through our clearing firm in an agency capacity on an exchange-traded security transaction, such as an equity, option, Exchange Traded Fund, Exchange Traded Note or Closed-End Fund, is 1.5% of the transaction amount. The actual commission you will pay for these transactions is/will be negotiated between you and your representative and recorded on the Brokerage Disclosure Form.
- **Mutual Funds and 529 Plans.** The maximum allowable commission or sales charge under applicable rules is 8.5% although the maximum amount for most of these products is 5.75%
- **Annuities.** The maximum upfront commission paid for new sales of annuities is typically 5.5%, but may vary depending on the time purchased and type of annuity (Variable and Investment-Only Variable Annuities)
- **Alternative Investments.** For alternative investment products such as private placements, non-traded business development companies (BDCs), real estate investment trusts (REITS), closed-end interval funds, Delaware Statutory Trusts (DSTs), the upfront sales load is as high as 7.0%.
- **Unit Investment Trusts (UITs).** The maximum upfront sales charge paid usually ranges from 1.85% to 3.95% and can depend on the length of the term for the UIT.



## **KCD Financial, Inc. Brokerage Compensation and Conflicts Brochure Principal or Dealer Transactions**

Because KCD is an *introducing broker-dealer*, we do not maintain an inventory of securities. Therefore, there are no Principal or Dealer Transactions. There are only Agency Trades.

### **Direct Fees and Charges**

If you hold an account at KCD, your assets are custodied at our clearing firm, Hilltop Securities, Inc. (HTS). HTS charges miscellaneous fees directly to your account, such as fees for transaction processing, account transfers and retirement account maintenance. These direct fees and charges are set out in the Hilltop Securities Customer Information Brochure at [hilltopsecurities.com/media/1289/HTS-Customer-Information-Brochure.pdf](http://hilltopsecurities.com/media/1289/HTS-Customer-Information-Brochure.pdf), are not shared with representatives and are not charged by HTS if you hold an account directly with a product sponsor rather than with HTS.

### **THIRD PARTY COMPENSATION**

KCD and representatives receive compensation from investment product sponsors and other third parties in connection with investments that KCD customers make in securities such as mutual funds, annuities, and alternative investments. Some types of third-party compensation are received by KCD and shared with representatives, and other types are retained only by KCD. For more information about the third-party compensation KCD receives, the investment product sponsors and other third parties that pay KCD the compensation, and related conflicts of interest, please see the Third-Party Compensation and Related Conflicts of Interest on [KCDFinancial.com](http://KCDFinancial.com)

### **Third Party Compensation Shared by KCD and Representatives**

#### **Trail Compensation**

KCD and its representatives receive ongoing compensation from certain investment products such as mutual funds, annuities, and alternative investments. This compensation (commonly known as trails or Rule 12b-1 fees) is typically paid from the assets of the investment product under a distribution or servicing agreement with the investment sponsor and is calculated as an annual percentage of assets invested by KCD customers. The more assets you invest in the product, the more we will be paid in these fees. Therefore, we have an incentive to encourage you to increase the size of your investment. The amount of trails we receive 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 the amount) rather than products that do not pay trails. For more information about trail commissions received with respect to a particular investment, please refer to the prospectus or offering document for that investment.

- **Mutual Funds and 529s.** The ongoing payment for the promotion, sale and servicing of the account and depends on the class of shares but is typically between 0.25% and 1% of assets annually.
- **Annuities.** KCD receives a trail payment from an annuity issuer for the promotion, sale and servicing of a policy. The amount and timing of the trail payments vary depending on the



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agreement between KCD and the issuer and the type of policy purchased. The maximum trail payment for annuities is typically 1.5% and varies depending on the type of annuity.

- **Alternative Investments.** For alternative investment products, such as private placements, trail payments may be as high as 1.25% on an annual basis.

### **Non-Cash Compensation**

KCD and its representatives receive non-cash compensation from investment sponsors that is not in connection with any particular customer or investment. Compensation includes such items as gifts valued at less than \$100 annually, an occasional dinner or ticket to a sporting event, or reimbursement in connection with educational meetings, customer workshops or events, or marketing and advertising initiatives, including services for identifying prospective customers. Investment sponsors also pay, or reimburse KCD and/or its representatives, for the costs associated with education or training events that may be attended by KCD representatives and for KCD sponsored conferences and events.

### **Third Party Compensation Retained by KCD**

#### **Cash Sweep**

If a customer holds an account at HTS, HTS offers a service to sweep cash held within accounts to an interest-bearing FDIC insured cash account or money market funds. KCD will receive 0.25% of any total cash account balances in excess of \$100,000.00. KCD also receives a portion of several miscellaneous fees HTS charges for things such as ticket charges, postage and handling, margin and credit interest, inactivity fees, IRA annual fees, Visa debit cards and ACAT transfers.

#### **Recordkeeping Fees**

As KCD does not custody customer assets, we do not charge Recordkeeping Fees.

#### **Networking Fees**

As KCD does not custody customer assets, we do not charge Networking Fees.

#### **Product Onboarding Fees**

KCD does not charge product sponsors setup fees when adding new investment products to its investment platforms.

#### **Revenue Sharing Payments and Annual Compliance and Education Conferences**

KCD does not receive revenue sharing payments from our investment sponsors and no sponsor receives any preferential treatment. Rather, KCD holds an annual Compliance and Education Conference and product sponsors are invited to participate. Product sponsors that choose to participate in these conferences will generally pay a participation fee to help defray the cost of the Conference.

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### **PRODUCT COSTS AND RELATED CONFLICTS**

Representatives provide recommendations with respect to a broad range of investment products, including stocks, bonds, ETFs, mutual funds, annuities, 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 KCD and representatives receive. You can learn more about these risks and the fees and costs charged by the investment products by reviewing the investment product's prospectus, offering memorandum or other disclosure documents.

Set out below is the typical range of expenses of the various investment products we sell. In most cases, these expenses are in addition to the commissions and fees that KCD and HTS receive for its brokerage services.

- **ETFs.** The expense ratios range from 0.05% to 1.00%, with an average expense ratio of around 0.44%
- **Mutual Funds.** Expense ratios can vary based on the type of mutual fund purchased. The average expense ratio for actively managed funds is 0.50% to 1.00%, for passive index mutual funds the average is 0.20%.
- **Annuities.** The typical range of annual expenses associated with annuities is 0.60% to 5.00% dependent upon the combination of options selected by the investor including type of annuity (variable annuities have a mortality and expense fee whereas fixed index annuities do not), optional riders elected (living and/or death benefits) and investment options where applicable (subaccounts or models for variable annuities).
- **Alternative Investments.** The typical range of annual expenses, excluding and commissions or dealer manager fees, is 0.80% to 6.00% which may include management fees, acquisition fees, disposition fees, performance participation fees, organization and offering fees, acquired fund fees and expenses, or interest payments on borrowed funds.
- **UITs.** Typical operating expenses for UITs range from 0.20% to 4.00%. Equity UITs usually comprise the low end of the range while UITs whose trust consist of a basket of CEFs typically comprise the high end of the range.

### **Share class and Fund Selection**

KCD offers various share classes of mutual funds and 529s. As an example, certain mutual fund share classes, often referred to as Class A shares, charge an upfront sales charge and an ongoing trail commission. For other mutual fund share classes, often called Class C shares, there is no upfront sales charge paid. However, there is an ongoing trail payment and a contingent deferred sales charge to the investor if there is a redemption within a certain period of time after a purchase. Depending on the length of the holding period for the mutual fund or 529, and other factors, one share class may be less expensive to the investor than another, and KCD and the representative may earn more or less in compensation for one share class than another. Because of their characteristics and sales load structure, mutual funds generally are longer term investments. Frequent purchases and sales of mutual funds can result in significant sales charges unless the transactions are limited to exchanges among



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mutual funds offered by a sponsor that permits exchanges without additional sales charges. KCD maintains policies and procedures that are designed to detect and prevent excessive mutual fund switching, but you should monitor your account and discuss with your representative any frequent mutual fund purchases and sales.

KCD also offers various mutual funds and ETFs, some of which have similar or identical investment strategies but differing fee structures. For example, a mutual fund that is designed to track an index of securities, such as the S&P 500 Index, may have higher or different types of fees than an ETF that is designed to track the same index. Whether a fund or ETF is more expensive than another fund or ETF with a similar or identical investment strategy may depend on factors such as length of holding, size of the initial investment and other factors. KCD and a representative may earn more compensation for one fund or ETF than another, giving KCD and the representative an incentive to recommend the product that pays more compensation to us.

## **OTHER COMPENSATION AND OTHER CONFLICTS**

### **Margin**

KCD through HTS offers customer the ability to purchase securities on credit, also known as margin purchases. When a customer purchases securities on margin, HTS extends a line of credit to the customer and charges interest on the margin balance. KCD has a financial incentive to encourage margin borrowing because KCD and HTS earn 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 KCD and representatives benefit from your decision to borrow and incur the various fees and interest described above. If contemplating the use of margin, please consult the HTS Margin Agreement and related disclosures for additional details.

### **Error Correction**

If a trade error occurs in a customer account that is caused by KCD, the trade will be cancelled and any loss as a result will be borne by KCD. If a trade error occurs because of customer action and results in a loss, that loss will be borne by the customer. If the trade error correction results in a gain, KCD will receive the financial benefit.

### **Rollovers**

If a customer decides to roll assets out of a retirement plan, such as a 401(k) plan, and into an IRA account, we have a financial incentive to recommend that a customer invests those assets with KCD, because we will be paid on those assets, for example, through commissions and/or fees. A customer should be aware that such fees or commissions likely will be higher than those the customer pays through the plan, and there can be custodial and other maintenance fees. As securities held in a retirement plan are generally not transferred in kind to an IRA, commissions and sales charges may be charged when liquidating such securities prior to the transfer, in addition to commissions and sales charges previously paid on transactions in the plan.



## **KCD Financial, Inc. Brokerage Compensation and Conflicts Brochure Limitations on Investment Recommendations**

KCD and representatives offer and recommend investment products only from investment sponsors with which KCD has entered into selling and distribution agreements. Other firms may offer products and services not available through KCD, or the same or similar investment products and services at a lower cost. In addition, KCD may only offer certain products in a brokerage account, even though there is a version of the product that may be offered at a lower cost through an advisory account, and vice versa.

The scope of products and services offered by certain representatives may also be more limited than what is available through other representatives. A representative's ability to offer individual products and services depends on his/her licensing, training, or branch office policy restrictions. For example, a representative maintaining a Series 6, Series 63 and Life Insurance Agent license is limited to providing investment company securities, such as mutual funds and UITs and variable annuity contracts. A representative maintaining a Series 7, Series 63 and Life Insurance Agent license is able to provide solutions including all securities available for sale by a Series 6 representative as well as individual stocks, bonds, and alternative investments, among others. As another example, a representative may only be licensed to provide brokerage services, and not advisory services, or vice versa. To provide investment advisory services, a representative is often required to be registered as an Investment Advisory Representative (IAR) with the state in which he/she has a place of business – or the Securities Exchange Commission (SEC).

You should ask your representative about the securities or services he/she is licensed or qualified to sell, and his/her ability to service investments that you transfer to KCD from another firm. You should also review the licenses held by your representative by visiting the FINRA BrokerCheck system at <http://brokercheck.finra.org>.

### **REPRESENTATIVE COMPENSATION, FEES AND RELATED CONFLICTS**

KCD Representatives are independent contractors – not employees.

#### **Cash Compensation**

KCD pays a representative a percentage of the revenue he/she generates from the sales of products and services. The percentage received can vary (generally between 70% and 92%) depending on his/her agreement with KCD and the level of sales production. There is no variance in sales credits based on the type of product or service sold. When compensation is based on the level of production, the representative has a financial incentive to meet those production levels. The amount of revenue a representative generates can cause a conflict of interest for a supervisor when considering whether to terminate a representative.

#### **Fees charged to representatives**

KCD charges representatives various fees under its independent contractor agreement for, among other things, insurance, certain outside business activity related supervision, transaction processing,

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technology, and licensing. Depending on the situation, these fees can make it more or less profitable for the representative to offer and recommend certain services or products over others.

### **Arrangements with Banks and Credit Unions**

### **Representative's Outside Business Activities**

Representatives are permitted to engage in certain KCD-approved business activities other than the provision of brokerage and advisory services through KCD. In certain cases, a representative may receive more compensation, benefits, and non-cash compensation through the outside business than through KCD. Some representatives are accountants, real estate agents, insurance agents, tax preparers, or lawyers. A representative may sell insurance through an insurance company not affiliated with KCD. In those circumstances, the representative would be subject to the policies and procedures of the third-party insurance company related to the sale of insurance products and would have different conflicts of interest than when acting on behalf of KCD. A representative 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 KCD. If you engage with a representative for services separate from KCD, you may wish to discuss with him/her any questions you have about the compensation he/she receives from the engagement. Additional information about your representatives outside business activities is available on FINRA's website at <http://brokercheck.finra.org>.

### **Compensation for Other Services**

KCD and its representatives can offer various types of advisory services 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 representative to recommend services, programs or platforms that generate more compensation for KCD and the representative 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 representative than an advisory account that generates compensation in the form of advisory fees.

**Please consult the Disclosures page on KCD's website for the current information about KCD's brokerage compensation and related conflicts of interest. KCD posts changes to this disclosure on its website [kcdfinancial.com/disclosures.html](http://kcdfinancial.com/disclosures.html) from time to time. KCD may not notify you when these changes are made, so you should consult the website to learn about any changes that have been made. If you are unable to access the website or require paper copies of any documents referenced here, please contact your representative.**