# Bates Securities, Inc Brokerage Fees and Compensation

**Introduction**

Bates Securities, Inc. offers investors directly held mutual fund shares, 529 college savings plans, variable annuities and variable life insurance.

Bates Securities, Inc. is affiliated with Bates Financial Advisors, Inc., who is registered with Securities and Exchange Commission as an investment adviser. Our investment advisor representatives earn a fee based on a percentage of assets under management, financial planning fee, and/or an advisory consulting fee.

- **Asset Based Fees –** are payable quarterly in arrears. Since the fees we receive are asset-based (i.e. based on the value of your account), we have an incentive to increase your account value which creates a conflict especially for those accounts holding illiquid or hard-to-value assets;
- **Financial Planning Fees –** are payable quarterly in arrears. Our Financial Planning fees are calculated and charged on an hourly basis or a fixed fee basis, depending on the specific arrangement with the investor; and
- **Advisory Consulting Fees –** are payable quarterly in arrears. Our Advisory Consulting fees are calculated and charged on an hourly basis and subject to the specific arrangement with each investor.

Bates Securities, Inc. is affiliated with Bates Financial Services, Inc., who is an insurance brokerage and is regulated by the professional organizations to which it belongs and must comply with the rules of those organizations. Some registered representatives of our firm are licensed as independent insurance agents. These people will earn commission-based compensation for selling insurance products. This practice presents a conflict of interest because they have an incentive to recommend insurance products to you for the purpose of generating commissions rather than solely based on your needs.

**Mutual Funds and 529 plans**

Deciding which mutual fund or 529 plan to invest in can be complex. It is important for you to evaluate how a particular mutual fund or 529 plan fits your individual needs and objectives. An important aspect of mutual fund screening and selection process is to read the mutual fund's prospectus carefully before investing. Each prospectus contains important information that will help you make an informed decision about a mutual fund or 529 plan investment. Bates Securities, Inc. registered representatives are able to provide you with a prospectus for the mutual fund(s) you may be evaluating. Bates Securities, Inc. registered representatives are able to answer questions regarding the fees and compensation associated with the mutual funds and 529 plans.

**Mutual Fund and 529 Plan Commissions, Fees, and Other Sales Compensation**

*Ongoing Costs*. All mutual funds charge management and other ongoing operational fees. These ongoing fees are typically used to pay for the mutual fund's continuing operations, which include, among other things, paying the mutual fund's investment manager, accounting and auditing expenses, legal expenses, marketing, advertising, and recordkeeping costs. For information on the types of expenses that a particular mutual fund incurs on an ongoing basis, you should refer to the "Fee Table" in the prospectus of the particular mutual fund. Ongoing costs of a mutual fund may also include fees commonly referred to as “12b-1 fees” or “shareholder services fees.” These fees, which are also reflected in the Fee Table, are generally used to finance activities intended primarily to result in the sale of additional shares of the mutual fund or to provide continuing shareholder services to existing mutual fund shareholders.

Mutual funds also incur other ongoing costs that are not reflected in the Fee Table, but which you might also consider. For instance, a fund incurs costs associated with the mutual fund’s ongoing investment activities. The impact of these costs is complex because these costs are often difficult to quantify and can vary depending on the type of underlying investments in which a particular mutual fund may invest. To understand the impact of these costs on a particular mutual fund, you might consider such factors as the size of the mutual fund (in terms of assets under management), previous years’ portfolio turnover rates (a ratio that measures the extent to which a mutual fund’s portfolio manager buys and sells securities within a particular period of time), and the level of trading costs that a particular mutual fund has incurred historically. Much of this information can be found in the financial statements of a mutual fund, in the mutual fund’s prospectus, or in the Statement of Additional Information (“SAI”) of the particular mutual fund (you may request a copy of a mutual fund’s SAI from your financial advisor or the mutual fund company directly).

*Sales Charges (“Loads”) and Class Distinctions*. Many mutual fund shares also contain sales charges, a portion of which is used to compensate broker/dealers and their financial advisors for providing financial advice and client service. An investor will incur any applicable sales charges, which are detailed in the prospectus, and generally take one of the following forms: at the time an investor makes an investment (known as a “front-end sales charge”), when an investor redeems their investment (known as a “back-end sales charge”), or in the form of an ongoing level charge that is assessed against assets (12b-1 and other associated fees).

- **Class A** – This class usually carries a front-end sales charge. This means that a sales charge is deducted from your investment each time you purchase additional shares. Typically, Class A shares have a lower expense ratio (total annual fund operating expenses as a percentage of the mutual fund’s assets) compared to the other share classes of the same mutual fund offered to similar account types, which means that ongoing costs may be lower than the costs associated with other share classes of the same mutual fund. Many mutual funds offer “breakpoint” discounts for large investments within the mutual fund group/family. These breakpoints are described in the mutual fund’s prospectus.

- **Class B** – Rather than imposing a sales charge at the time of initial investment as with Class A shares, Class B shares are characterized by a back-end or contingent deferred sales charges (also known as a “CDSC”), which means that you may pay a sales charge when you redeem (sell) mutual fund shares. The amount of the CDSC as a percentage of your investment normally declines over time and eventually is eliminated the longer you hold your shares (the period of decline may last anywhere from five to eight years depending on the particular mutual fund). Once the CDSC is eliminated, Class B shares usually convert to Class A shares. Until this conversion takes place, Class B shares will generally have higher 12b-1 fees than Class A shares and, as a result, the overall expense ratio for Class B shares will be generally higher than that of Class A shares.

- **Class C** – Class C shares are generally characterized by a level asset-based distribution fee, and, similar to a Class B share, a CDSC. However, unlike Class B shares, the possibility of incurring a

CDSC if you sell your shares generally goes away after a short period of time (usually one year). Class C shares may have the same 12b-1 fees as Class A and B shares, but the level asset-based sales charge will increase the ongoing asset-based fees of the fund. As a result, Class C shares will almost always have a higher total operating expense ratio than Class A shares.

- *Share Class Conversion Policy*. The fund company will automatically convert any portion of your Class C share investment held for longer than 10 years from date of purchase to Class A shares (or another appropriate share class) at net asset value with no additional cost to you. As a result, you will only be charged the services fees associated with Class A shares (or another appropriate share class) for the converted shares. Ongoing conversions of Class C shares held for longer than 10 years take place on a monthly basis.

- **Other share classes** – Share classes meant for fee-based or advisory account types can take a number of forms, such as Institutional or P shares, and do not generally contain sales loads or 12b-1 fees. In addition, some shareholders may qualify to invest in share classes that are intended for specific types of investors, such as retirement plans.

Further explanation of mutual fund share classes and their related fees is available on the Financial Industry Regulatory Authority's website at https://www.finra.org/investors/alerts/understanding-mutual-fund-classes

*Discounts and reduced sales charges*. While it may make sense to own mutual funds from different mutual fund companies, it may increase your total ownership costs. Fund companies often offer discounts or reduced sales charges on Class A shares based on an investor's total dollars invested with the mutual fund group/family. The investment levels necessary to receive these discounts are known as "breakpoints." Often, mutual fund companies allow investors to combine their holdings with those of their immediate family members to reach these breakpoints. The prospectus of every mutual fund describes its breakpoint policies, including how investors can reach breakpoints, how the mutual fund group defines which family members qualify as "related," and which mutual funds and account types qualify for breakpoints.

Breakpoint calculations are dependent on the information that you provide to your registered representative. You should provide your registered representative with information concerning your investments, particularly any mutual fund investments that you hold directly with a mutual fund company or with another broker/dealer other than Bates Securities, Inc.

Mutual fund breakpoint policies can differ, are governed by prospectus, and vary by broker-dealer. Below are some common ways you can receive the benefits of breakpoints.

- **Rights of Accumulation:** "Rights of accumulation" allow you to combine your mutual fund purchase with your existing investment in the mutual fund group/family to reach a breakpoint on new purchases. Rules for rights of accumulation and precise breakpoints vary among mutual fund groups/families. Consult the mutual fund prospectus and/or your registered representative for information on whether and how rights of accumulation may be applied to specific investments.

- **Letter of Intent:** Investors can take advantage of rights of accumulation from the time they purchase initial shares by agreeing to invest a certain dollar amount in a mutual fund or mutual fund family over a specified period of time. In most instances, this requires signing a Letter of Intent (LOI). In addition, many mutual fund companies also permit investors to include purchases completed before the letter of intent is signed, by instating a retroactive letter of intent. However, if the amount stated for investment in the letter of intent is not invested, the mutual fund can retroactively charge an investor the higher sales charge amount.

- **Net Asset Value (NAV) Transfers and Buybacks:** After an investor redeems mutual fund shares, some mutual fund companies will allow investors to buy back into certain mutual funds within a certain time frame without incurring a Class A share sales charge. They may even allow investors to apply past redemptions of mutual funds from other mutual fund groups/families toward purchases into their mutual fund company without a sales charge.

Please see a mutual fund's prospectus or the Statement of Additional Information (SAI) of the particular mutual fund for specific policies regarding Rights of Accumulation, Letter of Intent, NAV Transfers and Buybacks, and any other sales charge discounts or waivers.

It is important to note that while Class A share breakpoints can be beneficial in that they reduce certain sales charges, they are only one cost-based factor that an investor might consider with respect to mutual fund investments. As described above, it may be beneficial to select mutual funds issued by the same company if you choose to purchase Class A shares in a commission-based account. As your objectives change, you may be able to exchange among the mutual funds within the particular mutual fund group without incurring an additional sales charge.

**Annuities**

Deciding which annuity to purchase can be complex. It is important for you to work with your registered representative to evaluate how a particular annuity and its features fit your individual needs and objectives. An important component of any annuity screening and selection process includes carefully reading documents such as the product brochure, contract, or in the case of variable annuities, the product prospectus and the variable annuity investment sub account prospectuses before making a purchase decision. Each document contains important information that will help you make an informed choice. Your registered representative will gladly provide you with the product brochure or variable annuity product prospectus and literature containing the variable annuity investment sub account prospectuses. Your financial advisor will also answer your questions such as what guarantees are provided by the annuity, optional riders and how variable annuity investment sub accounts are priced, and initial and ongoing compensation Bates Securities, Inc. may receive.

For a more detailed description of annuities, purchase considerations, and the product related expenses, please visit the Financial Industry Regulatory Authority's (FINRA) website at http://www.finra.org/investors/annuities.

**Annuity Commissions, Fees, and Other Sales Compensation**

The following is a description of the types of payments Bates Securities, Inc. may receive related to your purchase of an annuity. Feel free to discuss with your registered representative how he/she is compensated prior to and following your annuity purchase. The information below explains in general terms how the compensation arrangements work.

**Indirect compensation**

Bates Securities, Inc. and its registered representatives receive compensation in the form of commissions from the insurance company for the purchase of an annuity contract and, in most cases, for additional deposits made into the annuity contract. Bates Securities, Inc. may also receive compensation from the insurance company to cover annuity contract servicing expenses (commonly referred to as trails), which are payable as long as the contract remains in effect. Bates Securities, Inc. passes a portion of these trails on to the registered representative. Upfront and trail commission payments are paid out of the insurance company's assets, however may be derived from product fees and expenses. For variable annuities, details regarding all fees and expenses, as well as compensation, can be found in the product prospectus. Additional copies of the variable annuity product prospectus and literature containing the variable annuity investment sub-account prospectuses are available through your registered representative.

Total compensation for annuity contracts (commissions and trails) range from 0% to 8% of the contract value, based on an average 7-year contract lifecycle.  Total compensation may be higher if the contract is held beyond that period. The actual commission amounts vary by insurance company, the type of product, the commission structure selected and, in some cases, the amount of the investment.

Bates Securities, Inc. does not provide cash or non-cash compensation incentives to registered representatives for recommending certain annuity contracts or types of annuity contracts.

**Contingent deferred sales charges**

As previously described, Bates Securities, Inc. receives a commission from the insurance company issuing your annuity contract. Your registered representative receives a portion of the annuity commissions paid to Bates Securities, Inc. The commissions paid by the insurance company are not deducted from your initial or subsequent purchase payments. However, if you surrender your annuity during the surrender charge period as noted in your contract (or product prospectus for variable annuity purchases only), a surrender charge will be deducted from the cash value returned to you.

Contingent deferred sales charge periods, also known as surrender charge periods, vary by annuity contract but typically last from three to ten years. Charges may be assessed on the current contract value or premiums paid into the contract and range from 0% to 10%, depending on the annuity contract and when in the contingent sales charge period the annuity is terminated. The highest percentages generally occur at the beginning of the contingent sales charge period, and the lowest percentages generally occur at the end of the contingent sales charge period.

The registered representative typically has a choice of commission options regarding the timing and structure of commissions paid. In most cases, the structure of the commission selected by the registered representative will have no impact on the annuity contract expenses. Annuity products may offer the following commission options:

-A single, lump sum commission based on purchase amount

-A slightly reduced lump sum commission and asset-based trail commissions paid monthly or quarterly during the years the contract remains in force

-A further-reduced lump sum commission and higher asset-based trails paid monthly or quarterly during the number of years the contract remains in force

**Variable Life Insurance**

Deciding which insurance product(s) to purchase can be difficult. It is important for clients to work with their registered representative to evaluate how a particular insurance product and its features fit their individual needs and objectives. An important component of any insurance review in the selection process includes carefully reading documents such as the product brochure and sample policy. For variable life products, these documents would also include the product prospectus and variable insurance investment subaccount prospectus materials. Each document contains important information that will help clients make an informed decision. Registered representatives will provide these documents for client review. Registered representatives will also answer client questions such as which guarantees are provided by the insurance product, what optional benefits and riders are available, and how variable insurance investment subaccounts are priced.

For a description of insurance products, please visit https://www.finra.org/investors/learn-to-invest/types-investments/insurance

**Variable Life Insurance Commissions, Fees, and Other Sales Compensation**

Bates Securities, Inc. and its registered representatives receive compensation in the form of commissions from the insurance company for assisting our clients through the application, underwriting and delivery processes related to the purchase of an insurance policy. In many cases, compensation is also paid on additional premiums made into the insurance policy for services related to the ongoing maintenance and review of the insurance policy, which are payable on average in years two through 10. While the commissions paid by the insurance company are not deducted from the client's initial or subsequent purchase payments, the initial and renewal commission payments are paid out of the insurance company's assets, which may be derived from product fees and expenses.

Range of initial compensation of 50%-100% of the target premium (Commissions are paid based on a target premium, which may or may not be the premium clients pay for their insurance policy. The target premium is calculated based on the premium amount needed for the policy's cash value to equal the death benefit at maturity (generally age 100), based on the insurer's current actuarial expectations as to mortality experience and operating expenses.)

Compensation paid for subsequent premiums of 1%-2.5% of the target premium.

Ongoing servicing fees and/or Trailing compensation of 0.25%-0.50% of the target premium annually.

Bates Securities, Inc. does not provide cash or non-cash compensation incentives to registered representatives for recommending certain insurance policies or types of insurance policies.

**Fees for Termination of the Insurance Policy**

In general, if a client surrenders the cash value of their life insurance policy during the surrender charge period as noted in the policy (or product prospectus for variable life insurance), a surrender charge will be deducted from the cash value returned to the client. Surrender charge periods vary by insurance policy, but typically remain from zero years to 20 years. Surrender charges range from 0% to 100% of the account value, depending on the insurance policy and when the insurance policy is terminated.

Typically, the highest percentages occur at the beginning of the surrender charge period and the lowest percentages at the end of the surrender charge period.

Investors should consider the investment objectives, risks, charges, and expenses of insurance products carefully before investing. Prospectuses for both the variable life insurance policy and the underlying funds are available from your Bates Securities, Inc. registered representative and should be read carefully before investing.