

Introduction

It is the responsibility of the Firm's designated supervisor(s) to provide adequate supervision and overall compliance as it relates to its participation in the recommendation of investment company securities (mutual funds).

18.01 Mutual Fund Classes

In order to make appropriate recommendations concerning mutual fund sales, registered representatives of the Firm must know the key points regarding the mutual funds he or she recommends or sells to customers. Material facts may include, but are not limited to the following information:

- The fund's investment objective;
- The fund's portfolio, historical income, or capital appreciation;
- The fund's expense ratio and sales charges;
- Risks of investing in the fund relative to other investments;
- The fund's hedging or risk amelioration strategies.

There are a variety of sales charges and service charges associated with fund sales. It is imperative that each registered representative of the Firm recommend the most suitable mutual fund, based on the investment objectives and financial status of the client, and that the registered representative discloses the sales charges and service charges to the client. A signed *Mutual Fund Explanation of Your Investment* form must be obtained from the client for all initial mutual fund purchases.

Common Mutual Fund Share Types

Numerous classes of mutual fund shares are available to investors. However, there is little or no consistency across fund company designations. For example, front-loaded shares may be called "A shares" by one fund family and "D shares" by a different fund family. Following are the most common types of shares:

Front-end Load Funds or "A Shares"

Front-loaded shares are most often referred to as "A shares". The client pays an up-front sales charge and the fund sponsor pays an up-front commission to the registered representative. Some fund families pay a small annual trail commission to the registered representative. Investors in "A shares" may qualify for a reduced sales charge through a breakpoint. However, funds that are classified as "A shares" are usually also subject to *12b-1 fees*.

Back-end Load Funds or "B Shares"

Back-end loaded shares are usually designated as "B shares". The client invests at Net Asset Value (NAV). There is a contingent deferred sales charge ("CDSC") assessed if the shares are liquidated within a certain pre-determined time frame. Fund families pay an annual trail commission that is normally higher than that paid on front-loaded shares. "B shares" typically deduct higher *12b-1 fees* from the client's account than "A shares". Funds that are classified as "B shares" may automatically convert to "A shares" at NAV at some specified time after the expiration period of the CDSC.

Note: While the client invests at NAV, "B shares" should not be marketed as "no-load". It also should be noted that "B shares" might not be appropriate for large fund purchases, since the client does not get the benefit of breakpoints. "A shares" generally are a more

suitable option for purchases in excess of \$1,000,000 and should generally be used for single purchases above \$250,000.

Level Loaded Shares or “C Shares”

Level loaded shares, most often called "C shares", can be constructed in a number of ways. Some bear a small up-front load (generally around 1%), a small deferred sales charge (again about 1%), and an annual trailing commission (also 1%). Others have no up-front load and pay an annual trailing commission (usually 1%) that begins after the third month. In either case, 12b-1 fees are higher than those of an "A share". The level of fees deducted may cause the long-term shareholders to ultimately pay more for their shares than a front-loaded fund. For that reason, "C shares" may not be the best choice for clients looking for a long-term investment unless the shares revert back into traditional "A shares". In some fund families, the level loaded shares revert back into traditional "A shares" after a certain period of time. At that point, the fees deducted annually from the client account would be reduced.

Note: Please see the Mutual Fund Explanation of Your Investment form for further details.

18.02

Disclosure Requirements

The Firm acknowledges the existence of certain disclosure requirements when engaging in business activity involving investment company shares. Although most disclosures are included in the prospectus, it is the responsibility of the Firm to ensure that the customer is properly informed and understands the details and scope of the transaction.

In recommending the purchase or sale of a mutual fund to a client, the registered representative must disclose all material facts to the client. To determine adequately whether a fact concerning a mutual fund investment would be material to a client, each registered representative of the Firm must obtain information sufficient to evaluate the suitability of the proposed investment for that client. Material facts may include, but are not limited to the following:

- Mutual fund's investment objectives;
- Mutual fund's portfolio and top holdings;
- Historical income and capital appreciation;
- Tax consequences of purchasing, selling/redeeming shares;
- Sales charges and applicable expense ratios;
- Mutual fund's management strategy;
- The risks of investing in the fund relative to other investments;
- The fund's hedging or risk amelioration strategies;
- Associated risks of the fund;
- Structure of the fund;
- Potential risk of a fund's inclusion in financial derivatives.

Disclosure of one or more of the following facts concerning a proposed investment is required if the circumstances surrounding the investment decision lead one to believe the client would regard a fact as "material" to his or her decision whether to invest in the fund:

Sales Charges and Fees

To the extent there are sales charges associated with such a purchase or sale (such as contingent deferred sales charges on either the fund to be liquidated or the fund to be

purchased), the registered representative should discuss with the client the affect of those charges on the anticipated return on investment. Further, if the registered representative recommends the purchase of a fund from a particular fund family based on the ability to switch easily between funds in the family, the registered representative must disclose all fees or charges that may be imposed.

Tax Issues

Concerning tax issues, each registered representative of the Firm should remind investors, where appropriate, that distributions of interest, dividends, and capital gains are subject to federal income taxes even though the client chooses to have the dividends reinvested. A high portfolio turnover also generates higher transaction costs and may affect taxes. When exchanging or switching mutual funds, the client should be aware of potential tax consequences and should be advised to consult a tax advisor to resolve questions.

Expense Ratios

To the extent that the Firm's registered representatives refer to expense ratios as "material" to an investor purchasing fund shares, these expense ratios need to be explained and compared with those of other mutual funds. Expense ratios are derived by dividing a fund's annual operating expenses by average net assets. Operating expenses may include management fees, investment advisory fees, director fees, 12b-1 fees and expenses for preparing and mailing prospectuses and financial reports.

Mutual Fund Classes

The registered representative of the Firm must explain to the client the differences between the various classes of shares (e.g., A, B, C shares, etc.) available from the fund companies and assist the client in selecting the class which best fits his or her investment objectives. As a general rule, single mutual fund purchases in excess of \$250,000 should utilize "A shares" in order to take advantage of breakpoints.

Prospectuses disclose many of the details of these products. However, each registered representative of the Firm must provide sufficient information for investors to understand and evaluate the structure of multi-class and master-feeder funds. As the number of share classes continues to increase, it is imperative that investors are told the differences among a front-end load, a spread load (deferred sales charge and 12b-1 fee) and a level load. They should be instructed about why one type of fee may be higher or lower than another. Another important disclosure relates to explaining how factors such as the amount invested, the rate of return, the amount of time the investor remains in the fund, and the fund's conversion features affect an investor's overall costs.

Funds Investing in Financial Derivatives

In offering funds that invest in financial derivatives, the registered representative of the Firm must clarify the risks involved to each investor. For example, funds that use repurchase agreements, purchase mortgage-related securities, purchase securities on a "when issued" basis, or purchase or sell securities on a "forward commitment" basis, all involve special risks. Such risks are material to an investor's decision as to whether the mutual fund is a suitable investment. Each registered representative of the Firm should familiarize themselves with a fund's investment objective, portfolio techniques, and policies as noted in the prospectus, and should convey such information to investors.

Clarification of Total Return

When recommending mutual funds, each registered representative of the Firm should make certain that investors understand the concept of total return. When explaining total return, the registered representative should emphasize that total return measures overall performance of a mutual fund, whereas current yield is based only on interest or dividend income received by the fund. Where appropriate, the registered representative should explain to investors the difference between return of principal and return on principal.

Clarification of Distribution Rates and Current Yield

Registered representatives of the Firm are reminded that the SEC requires that a yield quotation in an advertisement be restricted to a quotation of the current yield based on the SEC formula, as calculated in the Statement of Additional Information, and the quotation must be accompanied by quotations of total return. Thus, when presenting information to clients regarding distribution rates, the registered representative must fully explain the difference between distribution rate and current yield.

Other information that may enter into the determination of whether a particular fact concerning a proposed fund investment is material includes, but is not limited to:

- The relative risks and rewards of the investment being liquidated to the proposed investment;
- The risk aversion of the client, and
- The age and/or life expectancy of the client.

While many of these items are inextricably intertwined with the suitability determination, merely determining that an investment may be suitable for a particular client does not excuse the Firm or its registered representatives from disclosing material information to that client.

Although the prospectus and sales material of a fund include disclosures on many matters, oral representations by registered representatives that contradict the disclosures in the prospectus or sales literature may nullify the effect of the written disclosures. The Firm and its registered representatives may be liable for rule violations and civil damages to the clients that result from such oral representations.

18.03 Determining Suitability

In the recommendation of investment company shares, each registered representative of the Firm must first establish reasonable grounds for believing that the recommended product is suitable for the individual customer. A starting point in a registered representative's recommendation of a mutual fund is to clearly define the investor's objectives and financial situation. The need for current income, liquidity, diversification and acceptable levels of risk are important considerations common to most investors. In recommending mutual funds, the registered representative should match the investor's objective with the stated objective and investment strategy of a particular fund. An added concern relative to funds having multiple fee structures is not only matching the type of fund to the investor's objective, but also recommending the appropriate fee structure.

Each registered representative of the Firm should be able to demonstrate the rationale for his or her recommendation and overall determination of suitability. Therefore, in determining customer suitability, a reasonable effort will be made to obtain the following information from the customer:

- Financial status (annual income, net worth, etc.);
- Tax status (tax bracket);

- Investment objectives (safety, growth, income, speculation, etc.);
- Previous investment experience (limited experience, sophisticated investor, etc.);
- Age and occupation. ►►

Implementation Strategy

The designated principal will review each customer's new account form and/or investment objectives and financial situation for suitability for each transaction. Additionally, the designated supervisor will initial and date all new account forms as evidence of review. Please see the section on *Customer Accounts and Transactions* for further details.

Supervision of Recommendations after a Registered Representative Changes Firms

Registered representatives with an established customer base may, from time to time, change their association from one firm to another and may wish to bring with them customer assets, including mutual funds. When a representative who has sold such a product chooses to associate with a new firm, however, there may be impediments to the representative's ability to continue selling or servicing these investments, as well as receiving trail commissions from the sponsor for products the representative previously sold or serviced.

In these situations, the transferring representative may be tempted to recommend to customers that they replace their existing mutual funds with other investments, without adequately considering the customer's best interests and the suitability for the customer of those recommendations. Such inappropriate recommendations might be premised upon the fact that the new firm or the representative will no longer receive trail commissions for the customer's current investments or that the representative will generate more income by replacing an investment than recommending that the customer continue to hold the investment through the representative's prior firm.

A recommendation to liquidate, replace or surrender an existing investment must be suitable and based upon the customer's investment needs and not the financial needs of the firm or its associated persons. A firm may consider the fact that the firm lacks a dealer or servicing agreement with the product sponsor and, therefore, the registered representative cannot provide the customer with the service that the customer desires with respect to the product. The suitability analysis must also include other considerations, however, including whether the customer's mutual fund is subject to a contingent deferred sales charge or a required holding (surrender) period, or has other features that materially affect its value or liquidity, and the fees and expenses associated with the new product being recommended. (NTM 07-06; February 2007)

Implementation Strategy

In the event the Firm employs or otherwise associates with a new registered representative, the designated principal will perform the following functions:

- During the initial due diligence review, the designated supervisor will obtain information regarding the nature of the representative's business and the extent to which he or she offers investment products for which the Firm may need a dealer or servicing agreement in order for the representative to sell and provide service.

Note: In conducting reasonable due diligence of the prospective registered representative's customer base, the new firm needs to learn only the identity of the various mutual fund and variable products held by the registered representative's customer base. Detailed, nonpublic, personal

information about individual customers and their particular investments is not necessary or relevant to meet the objectives of this review. Finally, it is incumbent upon firms to educate their prospective representatives in understanding that a change of employment is not by itself a suitable basis for recommending a switch from one product to another and to supervise with respect to such conduct. (Ref. Regulatory Notice 07-36; Issued Aug. 13, 2007)

- If the Firm is unable or unwilling to service a customer's mutual fund, the Firm will instruct the registered representative to advise the customer of this fact, as well as the options the customer may have to continue to hold the investment at the customer's prior firm, before recommending that the customer liquidate or surrender the investment.
- Any recommendation to liquidate, replace or surrender a mutual fund must be suitable for the customer based upon the customer's financial needs and investment objectives. Recommendations should not be a function of the desire of the Firm or its new representative to obtain compensation that it would not otherwise receive were the customer to retain the previously sold investment.
- The designated supervisor will review any replacements recommended by the associated person with a view to identifying any recommendations to liquidate or surrender mutual funds that may be inconsistent with the customer's investment needs and objectives or that have not been preceded by appropriate disclosure to the customer.

18.04 Issuance of the Prospectus

Registered representatives, while recommending the purchase of a mutual fund, must provide the customer with a prospectus. In addition to issuing a prospectus at the time of recommendation, a copy of the mutual fund prospectus may alternatively be sent to the customer via mail.

Note: Please see the Mutual Fund Explanation of Your Investment form for further details.

18.05 Breakpoints

The Firm acknowledges that some mutual funds contain provisions that reduce the amount of associated sales charges if certain monetary investment thresholds or "breakpoints" are met. A breakpoint is the point at which a reduction in the sales charge occurs based on the dollar volume of the purchase exceeding a certain minimum. If a proposed fund or fund family offers breakpoint discounts, the registered representative must disclose the existence of the breakpoints to enable the client to evaluate the desirability of making a qualifying purchase. In this regard, recommending diversification among several fund families with similar investment objectives may not be in the best interest of a client.

Many mutual funds offer a reduced sales load to investors who commit to a specified additional purchase over a stated period of time. If a client indicates the intent to make additional purchases, the registered representative of the Firm must advise the client of the advantages of completing a *Letter of Intent (LOI)*.

If the dollar amount is close to a breakpoint, a client must be advised that he or she can receive a reduced sales charge by either purchasing additional shares or by indicating an intention to make additional purchases of the same fund over an extended period of time. When orders are made into multiple fund families by splitting the total dollar amount invested such that some or all of the purchase no longer qualifies for a breakpoint, and the client does not wish to commit to additional purchases at a later

date, the client must complete a *Letter of Acknowledgment regarding mutual fund purchases*. This Letter will be maintained in the client file.

Therefore, it is the responsibility of the Compliance Department or other designated supervisor to ensure that any sales of investment company shares that are close to or at certain established breakpoints must be disclosed to the customer. The disclosing of breakpoint information will assist the investor in properly evaluating his/her investment decision. The failure to disclose such information in connection with a purchase, sale, or transaction involving investment company shares will be strictly prohibited. ►►

Sales Charge Discounts and Waivers

Many investment companies provide sales charge discounts and waivers on their products for customers in certain circumstances described in their product offering documents (e.g., prospectuses or statements of additional information). These include volume-based discounts, such as breakpoints, and waivers on mutual fund exchanges. Failure to apply these discounts or waivers correctly may adversely affect customers' rates of return on their investment and contravenes firms' obligations under FINRA rules.

Some of the more common sales charge discounts and waivers that mutual funds, 529 plans, non-traded Real Estate Investment Trusts (non-traded REITs) and non-traded Business Development Corporations (non-traded BDCs) may offer customers are as follows:

Volume-Based Sales Charge Discounts

The most common discounts available across the relevant products are volume-based discounts, often referred to as "breakpoints" for mutual funds and 529 plans, and "volume discounts" for non-traded REITs and non-traded BDCs. Depending on the product, customers may be eligible for a reduced front-end sales charge when their purchase exceeds certain volume levels.

Each mutual fund and 529 plan can, in accordance with applicable law and disclosure requirements, set their breakpoint terms across the fund family or vary them from fund to fund. The initial threshold to receive a volume discount for a non-traded REIT or non-traded BDC is generally between \$150,000 and \$500,000, i.e., substantially higher than for a mutual fund.

Customers also may be eligible to receive other volume-based discounts when their purchases are aggregated through Rights of Accumulation (ROA), Letters of Intent (LOI), and householding and family discounts.

Sales Charge Waivers

In addition to volume-based discounts, investment companies and 529 plans may offer specified sales charge waivers, such as for mutual fund exchanges, rights of reinstatement (RoR), net asset value transfers (NAV Transfers), or purchases by retirement accounts and charities.

Example of Sales Charge Discounts and Waivers by Product Type

Product Type	Sales Charge Discounts
Mutual Funds 529 Plans	Breakpoints Rights of Accumulation (ROAs) Letters of Intent (LOIs) Householding Discounts Family Discounts
Non-Traded REITs Non-Traded BDCs	Volume Discounts Household-based Discounts

Product Type	Sales Charge Waivers
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Mutual Funds	Exchanges Rights of Reinstatement (RoR) Net Asset Value (NAV) Transfers Sales Charge Waivers for Retirement Accounts and Charities
529 Plans	RoR Sales Charge Waivers

Rights of Accumulation (ROAs)

ROAs provide discounts on the front-end sales charge or other sales charges of mutual funds and 529 plans by aggregating new purchases of shares with the customers' existing holdings to reach a volume discount threshold. The ROA reduces the sales charge to incremental new purchases, but not any prior transactions.

Letter of Intent (LOI)

An LOI provides discounts when a customer commits to purchase a specific dollar volume of shares, typically over a 13-month period. An LOI offers the same sales charge discount on each incremental purchase.

Householding/Household-based Discounts

Some fund families provide discounts on sales charges for aggregate shareholdings across (1) several types of accounts for each person (e.g., Individual, Trust, Joint, Retirement), including accounts at other firms; or (2) accounts held by close family members, such as a spouse or child.

Family Discounts

Other fund families also aggregate shareholdings for breakpoint, ROA or LOI purposes by counting purchases made in other funds from the same fund family.

Mutual Fund Exchanges

Mutual funds typically allow investors to sell shares in one fund and purchase shares in another fund in the same fund family on the same date without incurring sales charges

Rights of Reinstatement

A fund family may allow customers to redeem or sell shares in a fund and reinvest some or all of the proceeds without paying a sales charge or recoup some or all of a contingent deferred sales charge (CDSC). Generally, in order to be eligible for a RoR:

- The reinvestment must be made within a specified period of time (e.g., 90 days, although time periods may vary substantially across fund families);
- The redemption and reinvestment must take place in the same account;
- The redeemed shares must have been subject to a front-end or deferred sales charge; and
- The redemption and reinvestment must comply with any other terms and conditions required by certain investment companies (e.g., reinvestments must be made in the share class of the redeemed fund)

NAV Transfers

Some fund families allow customers to purchase class A shares without paying the front-end sales charge if the customer purchases such shares using proceeds from the sale of shares in a different mutual fund family for which the investor paid a front-end or back-end sales charge; these transactions are sometimes referred to as "NAV transfers." Most fund families that allow for such waivers require the customer to invest the proceeds from the sale within 30 to 90 days

Waivers for Retirement Accounts and Charities

Some fund families waive the front-end sales charges associated with Class A shares for certain retirement plans and charitable organizations

Waivers for 529 Plans

529 plans offer sales charge waivers in a variety of specific situations, such as:

- Existing account owners currently investing in charge-waived A shares;
- Group 529 plans;
- Plans purchased through an investment adviser;
- Certain customers approved for discount by the program manager or broker-dealer;
- Rollovers from qualified 529 plans; or
- Special share classes

(Ref. Regulatory Notice 21-07; March 4, 2021)

Note: Please see the Firm's Letter of Acknowledgement Regarding Mutual Fund Purchases for further details.

Implementation Strategy

The designated principal will ensure that any sales of investment company shares or interests in 529 plans that are close to or at certain established breakpoints are properly disclosed to the customer. All relevant disclosure documentation is provided to the client and initialed as evidence of review. The designated supervisor is responsible for reviewing account/transaction information (e.g., existing account transactions, holdings, and timelines) to ensure that the Firm is reviewing available and relevant information to identify any sales charge discounts and waivers, or multiple types of discounts, that customers may be eligible to receive (e.g., product discounts, account discounts, householding discounts, fund family and on- and off-platform transactions, etc.). Such a review will include reviewing account and/or transaction paperwork to ensure proper completion and recording, applicability of any sales charge discounts and waivers, and confirmation that all transactions are recorded on the Firm's trade blotters as part of its books and records.

Refunding of Fees (Breakpoint Discounts)

FINRA member firms will make refunds to customers where they are aware that customers did not receive the appropriate sales load discount to which they were entitled. This shall apply to customers who did not receive available breakpoint discounts. (Ref. NTM 03-47) ►►

Implementation Strategy

It is the Firm's policy that it shall review all claims by customers who come forward and assert that they did not receive all applicable breakpoint discounts. Once the Firm is in contact with a customer seeking a refund, the Firm will review its records to determine whether the customer is entitled to a refund and to determine the amount of the appropriate refund. The Firm will not place the burden of demonstrating entitlement to a refund upon the customer and, therefore, will not refuse to make a refund to a customer without first checking its own records to determine whether the customer is entitled to a refund. However, the Firm may require additional documentation from customers where the availability of the breakpoint discount can only be determined by reference to records not held by the Firm.

Specific to reviewing claim forms pertaining to mutual fund breakpoint and the application of applicable breakpoint discounts, the designated principal checks for mutual fund transactions in the Firm's system to determine appropriate breakpoints

based on dealer concessions received. Additionally, the designated principal checks the Firm's system, the designated clearing firm's system, and reviews for information on DST Vision and Advisor Central, and contacts mutual fund companies to obtain information on existing positions and linked accounts at the time of the mutual fund trade. All relevant transactional information is then reconciled to ensure that the appropriate breakpoint was applied.

18.06 **Letters of Intent (LOI)**

A *letter of intent* (LOI) is a written statement by an investor to a fund in which the investor states that he/she intends to purchase a stated dollar amount of fund shares over a specified period (generally, 13-months). As a result, the customer is charged the reduced sales charge that applies to the total amount of the customer's intended purchase on his/her very first purchase and all subsequent purchases. Most funds offer "look-back" provisions that permit shareholders to create a letter of intent at any time and include all purchases made during a previous period (usually 90 days) prior to creating the letter of intent.

The existence of a LOI is generally described either in a fund's prospectus or in its statement of additional information, and in applications to purchase fund shares supplied by a fund. ►►

Implementation Strategy

The designated principal will review relevant mutual fund transactional activity and corresponding documentation to ensure that mutual fund purchases made with the intent to buy more shares in the same single fund family have the proper letters of intent signed. All relevant documentation will be initialed as evidence of review.

Additionally, for those funds maintaining "look-back" provisions with respect to LOIs, the designated principal will provide sufficient supervision of mutual fund transactional activity to ensure that each registered representative is giving customers proper consideration involving applicable mutual fund purchases made during a previous 90 day period prior to creating the LOI where customers may benefit from signing an LOI and applying it retroactively to take advantage of a breakpoint. All applicable transactions will be properly documented and applicable discounts will be applied by the fund.

18.07 **Rights of Accumulation (ROA)**

Rights of Accumulation (ROA) is the reduction in sales charges based upon the aggregate quantity of purchased or acquired securities plus any additional securities purchases thereafter. Rights of Accumulation may occur when a customer makes two or more purchases, where each separate purchase is not enough to qualify for a breakpoint sales charge reduction, but meets the qualification criteria in the aggregate amount. If such qualifications are met, the customer may be entitled to a reduction in sales charge for any subsequent purchases made after such breakpoint is met. The Firm will inform the customer of any available Rights of Accumulation involving mutual fund transactions and any interest on the part of the customer to aggregate purchases with the purpose of qualifying for a reduced sales charge. Failure to inform clients regarding the use of letters of intent (LOI) or rights of accumulation (ROA), and failure to use these devices when warranted, is prohibited. ►►

Implementation Strategy

On a transactional basis, the designated principal will review account information (including other accounts that may be linked for breakpoint purposes) to ensure that transactions are receiving the proper ROA discounts. Clearing firm and direct business systems will be cross-checked and mutual companies may be contacted to verify accuracy. The principal shall review to ensure that any purchase of two or

more amounts, where each separate amount purchased is not enough to qualify for a breakpoint sales charge reduction but meets the qualification criteria in the aggregate amount, received a discount in sales charges. All relevant documentation will be initialed as evidence of review and compliance.

18.08 Switching

The process of “switching” can occur when a mutual fund with certain underlying investment objectives is sold, redeemed, or liquidated to purchase another mutual fund with similar investment objectives but within a different fund family. Based on the potential for additional sales charges and tax implications, it becomes necessary for the Firm to establish a justification for the switch as well as overall customer suitability.

Registered representatives of the Firm have an obligation to evaluate the net investment advantage of any recommended switch from one fund to another. Switching among certain fund types may be difficult to justify if the financial gain or investment objective to be achieved by the switch is undermined by the transaction fees associated with the switch.

A registered representative of the Firm may not encourage a client to switch mutual fund investments primarily to induce sales charges or commissions. When a client liquidates a mutual fund or other long term investments, then re-invests the proceeds in similar investments, the registered representative must obtain a signed *Letter of Acknowledgement Regarding Change in Investment Portfolio*. This form must be reviewed by the designated supervisor and maintained in the client file when the trades are completed. This requirement does not apply to exchanges between mutual funds within the same family of funds.

Long-term investment transactions requiring switch letters include, but are not limited to transactions between and among mutual funds, unit investment trusts, annuities, and life insurance. When exchanging or switching mutual funds, the client should be aware of potential tax consequences and should refer this activity to a tax advisor.

The Firm prohibits any excessive activity or practices in a client's account, which may be deemed as "churning" or "over-trading". The standards to measure the excessiveness of suspect activity will be evaluated with consideration to the client investment objectives, client investment history and client correspondence.

Therefore, in order to obtain a better understanding of the details and certain ramifications of switching, each customer is requested to complete a Letter of Acknowledgment Regarding Change in Investment Portfolio that will be retained on file with the Firm. Each letter will contain specific information relating to each switch along with the customer's acknowledgement and consent. ►►

Note: Please see the Letter of Acknowledgement Regarding Change in Investment Portfolio form for further details.

Implementation Strategy

On a transactional basis, the designated principal will review all relevant documentation such as new account forms, order instructions and Letters of Acknowledgement in an effort to detect the presence of any unauthorized or unsuitable switching in customer accounts. Additionally, every switch shall have a corresponding *Letter of Acknowledgement Regarding Change in Investment Portfolio* that is signed by the customer. All relevant documentation shall be maintained as evidence of review and compliance.

18.09 Selling Dividends

During a recommended purchase of investment company shares, registered representatives of the Firm will not suggest, state or otherwise imply that the purchase of such shares before an ex-dividend date is beneficial to the purchaser unless there are clear tax advantages for the customer. Such a purchase generally is not to the client's advantage because he or she may receive taxable income immediately and the value of the shares decrease by the amount of the dividend. Additionally, the Firm shall avoid any representation that distribution of long-term capital gains by an investment company are or should be viewed as part of the income yield from the investment company.

18.10 **Contingent Deferred Sales Charges (CDSC)**

In the event that an investor purchases Class B shares, the investor pays no initial sales charge and a higher annual distribution/service fee, with a declining charge applied to principal amounts withdrawn in the first six years after their initial investment in the funds. The withdrawal charge is called a "Contingent Deferred Sales Charge", or CDSC. The documentation of all sales of Class B shares must include the *Contingent Deferred Sales Charge (CDSC) Disclosure Statement*.

As a standard policy, the Firm will not offer or sell open-end investment company shares registered under the *Investment Company Act of 1940*, if the sales charges described in the prospectus are considered excessive as set forth in *Rule 2830(d)*.

Confirmation Disclosures of Deferred Sales Charges

Any purchases of investment company shares that impose deferred sales charges on redemptions are required to have a disclosure statement on the front of each written confirmation in at least 8-point type. The statement should read, "*On selling your shares, you may pay a sales charge. For the charge and other fees, see the prospectus.*"

Note: Please see the Letter of Acknowledgement Regarding Change in Investment Portfolio form for further details.

18.11 **Advertising and Sales Literature**

In addition to the general provisions of *Rule 2210 Communications with Customers and the Public*, the Firm's designated supervisor shall be responsible for monitoring any mutual fund related advertising and sales literature

Approval/ Evidencing Procedures

All maintained records of mutual fund advertisements, sales literature and correspondence should include the names and signatures of the person(s) who *prepared* the documentation, as well as the signature or initials of the registered principal(s) who *approved* such documentation prior to distribution.

Filing Requirements

Advertisements and sales literature concerning registered investment companies that are not governed by Rule 2210(c)(3) or Rule 2210(c)(4) must be filed with the FINRA Advertising Regulation Department within 10 business days of first use or publication.

Record keeping Requirements

The Firm will maintain a separate file for all mutual fund correspondence, advertisements, and sales literature, for a period of three (3) years from the date of use, with the first two (2) years maintained in an easily accessible location.

Registered Investment Companies (with rankings and comparisons)

All advertisements and sales literature concerning Registered Investment Companies to include mutual funds, variable contracts, and unit investment trusts not covered in *Rule 2210(c)(2)*, should be filed with FINRA Advertising Regulation Department *within ten days of first use or publication*.

New IM-2210-3 (Use of Rankings in Investment Companies Advertisements and Sales Literature) modifies the current ranking guidelines by the following:

- IM-2110-3(b) makes clear that no advertisement or sales literature may present a ranking, except those (1) created and published by a Ranking Entity, which the ranking guidelines define to include certain independent entities, or (2) created by an investment company or an investment company affiliate but based on the performance measurements of a Ranking Entity;
- the ranking guidelines in IM-2210-3 apply only to advertisements and sales literature; and
- IM-2210-3(g) permits the use of investment company family rankings, provided that when a particular investment company is being advertised, the individual rankings for that investment company also must be presented. However, as with all performance rankings, use of an investment company family ranking must comply with the other applicable requirements of Rule 2210.

Required Disclosures for Rankings in Advertisements and Sales Literature

Headlines/Prominent Statements

A headline or other prominent statement must not state or imply that an investment company or investment company family is the best performer in a category unless it is actually ranked first in the category.

Required Prominent Disclosure

All advertisements and sales literature containing an investment company ranking must disclose prominently:

- the name of the category (e.g., growth);
- the number of investment companies or, if applicable, investment company families, in the category;
- the name of the Ranking Entity and, if applicable, the fact that the investment company or an affiliate created the category or subcategory;
- the length of the period (or the first day of the period) and its ending date; and

- criteria on which the ranking is based (e.g., total return, risk-adjusted performance).

Other Required Disclosures

All advertisements and sales literature containing an investment company ranking also must disclose:

- the fact that past performance is no guarantee of future results;
- for investment companies that assess front-end sales loads, whether the ranking takes those loads into account;
- if the ranking is based on total return or the current SEC standardized yield, and fees have been waived or expenses advanced during the period on which the ranking is based and the waiver or advancement had a material effect on the total return or yield for that period, a statement to that effect;
- the publisher of the ranking data (e.g., "ABC Magazine, June 2003"); and
- if the ranking consists of a symbol (e.g., a star system) rather than a number, the meaning of the symbol (e.g., a four-star ranking indicates that the fund is in the top 30% of all investment companies).

Time Periods

Current Rankings

Any investment company ranking included in an item of sales literature must be, at a minimum, current to the most recent calendar quarter ended prior to use. Any investment company ranking included in an advertisement must be, at minimum, current to the most recent calendar quarter ended prior to the submission for publication. If no ranking that meets this requirement is available from the Ranking Entity, then a member may only use the most current ranking available from the Ranking Entity unless use of the most current ranking would be misleading, in which case no ranking from the Ranking Entity may be used.

Rankings Time Periods; Use of Yield Rankings

Except for money market mutual funds:

- advertisements and sales literature may not present any ranking that covers a period of less than one year, unless the ranking is based on yield;
- an investment company ranking based on total return must be accompanied by rankings based on total return for a one year period for investment companies in existence for at least one year; one and five year periods for investment companies in existence for at least five years, and one, five and ten year periods for investment companies in existence for at least ten years supplied by the same Ranking Entity, relating to the same investment category, and based on the same time period; provided that, if rankings for such one, five and ten year time periods are not published by the Ranking Entity, then rankings representing short, medium and long term performance must be provided in place of rankings for the required time periods; and

- an investment company ranking based on yield may be based only on the current SEC standardized yield and must be accompanied by total return rankings for the time periods specified in paragraph (d)(2)(B).

Categories

- The choice of category (including a subcategory of a broader category) on which the investment company ranking is based must be one that provides a sound basis for evaluating the performance of the investment company.
- An investment company ranking must be based only on (A) a category or subcategory created and published by a Ranking Entity or (B) a category or subcategory created by an investment company or an investment company affiliate but based on the performance measurements of a Ranking Entity.
- An advertisement or sales literature may not use any category or subcategory that is based upon the asset size of an investment company or investment company family, whether or not it has been created by a Ranking Entity.

Multiple Class/Two-Tier Funds

Investment company rankings for more than one class of investment company with the same portfolio must be accompanied by prominent disclosure of the fact that the investment companies or classes have a common portfolio.

Investment Company Families

Advertisements and sales literature may contain rankings of investment company families, provided that these rankings comply with the guidelines above, and further provided that no advertisement or sales literature for an individual investment company may provide a ranking of an investment company family unless it also prominently discloses the various rankings for the individual investment company supplied by the same Ranking Entity, as described in paragraph (d)(2)(B). For purposes of this IM-2210-3, the term "investment company family" means any two or more registered investment companies or series thereof that hold themselves out to investors as related companies for purposes of investment and investor services.

Bond Mutual Fund Volatility Ratings

Interpretive Material IM2210-5 permits firms and their associated persons to include bond mutual fund volatility ratings in supplemental sales literature (mutual fund sales material that is accompanied or preceded by a fund prospectus), subject to certain conditions. Rule 2210(c)(3) requires supplemental sales literature containing bond mutual fund volatility ratings to be filed with FINRA Advertising Regulation Department for review and approval at least 10 days prior to use (or such shorter period as the Department may allow in particular circumstances). If the Department requests changes to the material, the material must be withheld from publication or circulation until the requested changes have been made or the material has been re-filed and approved. (Ref. NTM 03-48) The Firm must provide with each filing the actual or anticipated date of first use. Any filing of sales literature pursuant to this requirement shall include any supplemental information requested by the Department pertaining to the rating that is possessed by the Firm (Ref. NTM 03-38)

IM-2210-5 permits the use of bond fund volatility ratings only in supplemental sales literature and only if certain conditions are met:

- The word "risk" may not be used to describe the rating;
- The rating must be the most recent available and be current to the most recent calendar quarter ended prior to use;
- The rating must be based exclusively on objective, quantifiable factors;
- The entity issuing the rating must provide detailed disclosure on its rating methodology to investors through a toll-free telephone number, a Web site, or both;
- A disclosure statement containing all of the information required by the rule must accompany the rating. The statement must include such information as the name of the entity issuing the rating, the most current rating and the date it was issued, and a description of the rating in narrative form containing certain specified disclosures.

Note: FINRA considered whether the timeliness requirements of IM-2210-5 (which requires sales literature to reflect information that, at a minimum, is current to the most recently completed calendar quarter end) continue to be appropriate. In this regard, since the Rule's adoption, SEC Rule 482 has been amended generally to require advertised mutual fund performance to be current as of the most recent month-end, or alternatively, to disclose where the reader may obtain the most recent month-end performance. FINRA determined that it is unnecessary to modify the timeliness requirements of IM-2210-5(b)(2) to mirror those of amended Rule 482, since FINRA understands that it is quite rare for ratings agencies to revise a volatility rating on a month-to-month basis. Nevertheless, a firm may not distribute supplemental sales literature containing a bond fund volatility rating if the firm knows or has reason to know that the rating is false or misleading, even if the rating was current as of the most recent calendar quarter end. (Ref. NTM 06-05; Effective Date December 27, 2005) ►►

Implementation Strategy

In the event that the Firm produces or otherwise issues sales literature containing bond mutual fund volatility ratings, the Firm must file the sales literature with FINRA Advertising Regulation Department for review and approval at least 10 days prior to use (or such shorter period as FINRA may allow in particular circumstances). If FINRA requests changes to the material, the material must be withheld from publication or circulation until the requested changes have been made or the material has been re-filed and approved. The Firm must provide with each filing the actual or anticipated date of first use. Any filing of sales literature pursuant to this requirement shall include any supplemental information requested by FINRA pertaining to the rating that is possessed by the Firm.

Additional Information/Procedures

- Members should file all advertisements in advance of first use;
- Any additional filings of unchanged previously filed advertisements/sales literature is not required;
- Each filing should contain the anticipated and actual date of first use; and
- Filing should include copies of any ranking or comparison reports between the filing investment company and other investment companies.

Registered Investment Companies (with internally produced rankings)

New Rule 2210(c)(4) maintains the 10-business day pre-filing requirement for registered investment company advertisements and sales literature that include or incorporate self-created rankings or comparisons.

Cold Calling

All cold call activity regarding mutual funds must be conducted in compliance with the Firm's procedures on cold calling. The Firm maintains a central "do not call" list on its website where each registered representative is required to check prior to making any cold calls.

"Dealer Use Only" Materials

Registered representatives must not deliver to the public any material marked "Dealer-Use-Only." Such material is intended for distribution only to dealers and registered representatives and has not been subjected to the screening and filing requirements associated with sales literature intended for the public.

Fund sponsors, dealers and wholesalers often use this material to educate sales personnel about the benefits of a fund and to provide marketing ideas. This material is not required to be filed with FINRA as "sales literature" because it is considered an internal communication and is exempt from FINRA filing requirements. Additionally, oral presentations should not be based on information contained in dealer-use-only material. This practice could present a potential regulatory problem, as there can be no assurance that the information provided to investors is in accordance with applicable rules.

Additional Information/Procedures

- All filings are subject to approval by FINRA Advertising Regulation Department prior to use and distribution to the public;
- All filings should be changed upon the recommendation of FINRA Advertising Regulation and should be re-filed until approved for distribution;
- Each filing should contain the anticipated and actual date of first use; and
- Filing should include copies of any ranking or comparison reports between the filing investment company and other investment companies. ►►

Implementation Strategy

The designated principal will review and approve each piece of advertising and sales literature prior to use or distribution to clients. If necessary, such information will be submitted to FINRA Advertising Dept. approximately ten (10) days prior to first use pursuant to *Rule 2210*. Additionally, the designated supervisor will initial and date each piece of advertising and sales literature as evidence of review.

New Performance Advertising Standards

On July 5, 2006, the SEC approved amendments to Rules 2210 and 2211 to impose certain disclosures and presentation requirements on performance sales material. Specifically, Rule 2210(d)(3)(A) requires that such performance sales material disclose the standardized performance mandated by SEC Rule 482 and Rule 34b-1, and to the extent applicable, the maximum sales charge imposed on purchases or the maximum deferred sales charge, and the expense ratio, gross of any fee waivers or expense reimbursements. Both the sales charges and the expense ratio should reflect the amounts stated in the investment company's prospectus fee table, current as of the date of submission of an advertisement for publication, or as of the date of

distribution of other communications with the public. And if performance sales material appears in a print advertisement, the required information must be presented in a prominent text box. *These rule changes became effective on April 1, 2007. Accordingly, all member performance sales material that is used on or after April 1, 2007 must comply with the new requirements of Rule 2210(d)(3).* (Ref. NTM 06-48; Effective Date April 1, 2007)

Prominence Requirements

Rule 2210(d)(3)(B) provides that all of the information required by paragraph (A) must be set forth “prominently.” FINRA will apply the same prominence and proximity standards for disclosure of the expense ratio as those used for standardized performance and sales charges under the SEC rules. For example, the quotations of the standardized average annual total returns for one-, five- and 10-year periods must be set forth with equal prominence, and any quotations of non-standardized performance may not be set forth in greater prominence than the standardized performance. Similarly, the disclosures of a fund’s maximum sales load and expense ratio generally would have to be presented in print advertisements in a type size at least as large as and of style different from, but at least as prominent as, that used in the major portion of the advertisement. When fund performance data is presented on a Web site, members may present standardized performance through the use of a hyperlink, provided that the standardized performance is presented prominently and is consistent with the standards of SEC Rule 482.

Text Box Requirement

Rule 2210(b)(3)(B) also provides that, in any print advertisement, the information required by paragraph (A) must be set forth in a prominent text box that contains only the required information and, at the member’s option, comparative performance and fee data and other disclosures that are required to be in the advertisement under Rule 482 and Rule 34b-1. Thus, for example, a text box may include the prospectus disclosure language required by Rule 482, the performance of a relevant benchmark index, or a comparison of the fund’s expense ratio to the average expense ratio of similar funds. The text box requirement applies only to advertisements that appear in print advertisements, such as a print newspaper, magazine or other periodical. *The text box requirement does not apply to printed sales literature, such as fund fact sheets, brochures or form letters, nor does it apply to Web sites, television or radio commercials, or any other electronic communication.*

Annual Fund Operating Expense Ratio

Rule 2210(d)(3)(A)(ii)(b) requires performance sales material to disclose a fund’s total annual operating expense ratio, *gross* of any fee waivers or expense reimbursements (the unsubsidized expense ratio), as stated in the fee table of the fund’s prospectus. This requirement to disclose the unsubsidized expense ratio applies even if a fund’s prospectus also discloses its expense ratio net of fee waivers or reimbursements (the subsidized expense ratio).

The rule does not preclude performance sales material from also presenting a fund’s subsidized expense ratio, as long as the member presents both expense ratios in a fair and balanced manner in accordance with the standards of Rule 2210. In this regard, FINRA expects a member that also presents a subsidized expense ratio to disclose in the sales material whether the fee waivers or expense reimbursements were voluntary or mandated by contract, and the time period during which the fee waiver or expense reimbursement obligation, if any, remains in effect. In print advertisements, a member may show the subsidized expense ratio in the text box with the unsubsidized expense ratio as long as they are presented in a fair and balanced manner. ►►

Implementation Strategy

In the event that the Firm uses, any performance sales material, it must meet the disclosure standards of Rule 2210(d)(3). At a minimum, the Firm will be required to disclose the unsubsidized total annual fund operating expense ratio unless the sales material already discloses this ratio in a manner that meets the prominence requirements of Rule 2210(d)(3). The Firm will not be required to re-file with the Advertising Regulation Department previously filed sales material if the only revision is the addition of the expense ratio. All performance print advertisements also will be required to include a prominent text box and must be re-filed with the Department. The addition of the text box to previously filed advertisements alters the content and presentation of the performance information, requiring that the advertisement be re-filed with the Department.

18.12 Correspondence

In addition to the general provisions of *Rule 2210 Communications with Customers and the Public*, the compliance department or designated supervisor is responsible for monitoring any mutual fund related correspondence including, but not limited to, the following areas:

Comparisons

Marketing the Firm's products in comparison with those of any other company is strictly forbidden, unless such comparison has been previously approved by the Firm and FINRA. The Compliance Department and/or the designated supervisor shall control the approval of such comparisons.

Performance Projections

Performance projections are strictly prohibited. During a sales presentation, only prospectus and literature authorized by the Firm may be used as reference material. Registered representatives of the Firm are not to make any representation other than those contained in the prospectus or in such referenced material.

General Misrepresentations

- Any representation that distribution of long-term capital gains by an investment company are or should be viewed as part of the income yield from the investment company;
- The description of an investment company as "no load" or having "no sales charge" if the investment company has a front-end or deferred sales charge or service fees which exceed .25 of 1% of average net assets per annum;
- Recommendations of switching and/or unsuitable transactions; and
- Letters that include portions of prospectuses that if taken out of context could be considered misleading. ►►

Implementation Strategy

On a periodic basis, the designated principal will review an appropriate sample of incoming and outgoing correspondence through its email archiving vendor for any indicators of potential customer complaints or other issues as stated above. The designated supervisor will properly document correspondence as evidence of review.

18.13 Sales Contests

It is the responsibility of the Compliance Department or designated supervisor to approve all sales contests prior to implementation. Each contest should not be based on the actual, or expected, amount of commissions received from mutual fund companies. In the event the Firm acts as an underwriter of investment company shares, the Firm will not sponsor outside broker/dealer contests directly relating to mutual fund sales. ►►

Implementation Strategy

The firm does not participate in sales contests at this time.

18.14 Acceptance/Receipt of Mutual Fund Concessions

The term “concession” can be defined as any fee, discount, or commission in connection with the sales or distribution of investment company securities that are in the form of securities, or other non-cash form, and/or not disclosed in the prospectus. It is the responsibility of the Compliance Department or designated supervisor to monitor any cash and non-cash compensation or other incentives received by registered representatives of the Firm.

General Sales Practices

Registered representatives of the Firm may not favor the sale of shares of particular mutual funds or groups of funds because of brokerage commission or any form of extra compensation received or expected to be received by such registered persons. The client's interest must come first. Moreover, fund sponsors are required to do business with the Firm only and not with the registered representatives of the Firm.

Registered representatives of the Firm may not receive compensation for the sale of mutual fund shares from any organization or individual other than the Firm. Outside the regular compensation structure, each registered representative may receive only token gifts directly from the underwriter of the mutual fund shares. In the event that a registered person receives any form of compensation outside of the normal compensation structure, they are required to disclose any/all payments or gifts to the Firm.

Cash Compensation

Any cash compensation (i.e. discounts, fees, commissions, loans, overrides, etc.) involving the sale or distribution of investment company shares must be disclosed in the prospectus unless otherwise specified.

Non-Cash Compensation

In addition to the concessions disclosed in the prospectus, the following is a list of non-cash compensation considered not to be of “material value” as specified in *Rule 2830(l)(3)(C)*.

- An occasional dinner, sporting, or other entertainment event for one or more registered representatives that is not based on the sale of investment company shares;
- A breakfast, luncheon, dinner or other similar function given for a group of registered representatives in connection with a business or sales meeting at the location of a fund;
- Unconditional gifts with an aggregate value not to exceed \$100 per person per year.

18.15 Mutual Fund Redemptions

In accordance with *Rule 2830(j)*, no member who is a principal underwriter of a security issued by an open-end investment company or a closed-end investment company that makes periodic repurchase offers pursuant to Rule 23c-3(b) under the 1940 Act and offers its shares on a continuous basis pursuant to Rule 415(a)(1)(xi) under the Securities Act of 1933 shall repurchase such security, either as principal or as agent for the issuer, from a dealer acting as principal who is not a party to a sales agreement with a principal underwriter, nor from any investor, unless such dealer or investor is the record owner of the security so tendered for repurchase. No member who is a principal underwriter shall participate in the offering or in the sale of any such security if the issuer voluntarily redeems or repurchases its securities from a dealer acting as principal who is not a party to such a sales agreement nor from any investor, unless such dealer or investor is the record owner of the security so tendered for repurchase. Nothing in this paragraph shall relate to the compulsory redemption of any security upon presentation to the issuer pursuant to the terms of the security.

Nothing in this Rule shall prevent any member, whether or not a party to a sales agreement, from selling any such security for the account of a record owner to the underwriter or issuer at the bid price next quoted by or for the issuer and charging the investor to a reasonable charge for handling the transaction, provided that such member discloses to such record owner that direct redemption of the security can be accomplished by the record owner without incurring such charges.

Implementation Strategy

For business done directly with the mutual fund company (non-clearing firm business), it is the Firm's policy that any redemption requests should be made directly with the issuer or fund family via the telephone or other acceptable means of communication. In the event that the firm receives a request for redemption, the client will be instructed to contact the issuer or fund family directly for expedited processing.

18.16 Verification of Customer Address Changes

In the event the Firm receives a request for a change of address from an existing customer, the designated supervisor of the Firm will ensure that certain procedures are conducted as an effective verification process for requested address change. ►►

Implementation Strategy

The designated supervisor will ensure that the Firm sends a notification letter to the last known residential address of record for the customer as provided on the Firm's customer account information. Similar to a "negative verification" letter, this letter will confirm the requested address change which would require a response from the customer *only in the event that the information contained in the confirmation letter is incorrect*. Additionally, a similar verification letter will be sent to the new and/or current residential address also confirming the requested change. As an alternative method to verifying the change in customer address information, the Firm may contact the customer directly via telephone and receive a verbal confirmation. All methods of the verification process shall be documented. For clearing firm accounts, notification will be sent by the clearing firm on the firm's behalf.

18.17 Mutual Fund Late Trading

Investment Company Act Rule 22c-1(a) generally requires that redeemable securities of investment companies be sold and redeemed at a price based on the net asset value (NAV) of the fund computed after the receipt of orders to purchase. It is a violation of Rule 2110, and may be a violation of the federal securities laws and Rule 2120, for member firms and their associated persons to knowingly or recklessly effect mutual fund transactions that are priced based on NAV that is computed prior to the time the order

to purchase or redeem was given by the customer. Furthermore, it may be a violation of Rule 2110 and the federal securities laws to knowingly or recklessly facilitate certain mutual fund transactions, such as market timing transactions, in conjunction with, or with the acquiescence of, a mutual fund sponsor, fund administrator, investment adviser, underwriter, or any other affiliated person where those other parties acted contrary to a representation made in the prospectus or statement of additional information pursuant to which the mutual fund shares are offered. (Ref. NTM 03-50) ►►

Implementation Strategy

Not applicable. The Firm's designated clearing firm does not permit after-close (generally after 4:00pm EST) mutual fund purchases or redemptions to receive the same day's NAV. Therefore, any trades that are entered after the close receive the following day's NAV price.

18.18 Mutual Fund Market Timing

Most mutual funds are intended for long-term investment purposes only and not for market timing or excessive trading. As such, market timing activity may be disadvantageous to a fund and its shareholders. Market timers seek potential price differentials that may occur with securities that trade in a different time zone. The potential for these price differentials is more prevalent in international funds. For that reason, the Firm monitors any international stock funds more extensively than others funds.

The Firm is contractually obligated to, and pursuant to applicable rules and regulations (including Rule 22c-1 under the Investment Company Act of 1940), required to comply with each Funds' current prospectus disclosure, including each Funds' policies and procedures regarding market timing. The Firm will diligently investigate any possible or actual violations and consider any appropriate remedies of corrective action. ►►

Implementation Strategy

The Firm monitors market timing activity on a regular basis. Monitoring efforts may include monitoring daily/monthly trading activity reports and contacting funds to investigate activity. The Firm may reject any orders (including exchange transactions) by any investor at any time for any reason, including, in particular, orders that may be attributable to market timers or are otherwise excessive or potentially disruptive to a fund. Orders placed by investors in violation of a particular Fund's excessive trading policies or by investors that the Firm believes are market timers may be revoked or cancelled either by the Firm or the Fund on or by the next business day after receipt of the order. For transactions placed directly with a fund, the Fund may consider the trading history of accounts under common ownership or control for the purpose of enforcing the Fund's excessive trading policy. All relevant documentation pertaining to any internal investigations or other views pertaining to potential market timing activities will be properly documented and maintained in accordance with books and records rules.

18.19 Signature Guarantee

A Medallion Signature Guarantee is a warranty made to a mutual fund by a third party that a signer of a letter of instruction or certificate has legal capacity to sign, that he or she is an "appropriate person" to sign and that the signature of the signer is genuine. If required by a mutual fund, a signature or signatures on a letter must be guaranteed by an institution that is an "eligible guarantor" as defined in Rule 17Ad-15 of the Securities Exchange Act of 1934. This would include such institutions as banks and brokerage firms. If the shares are registered in more than one name, the signature of each shareholder must be guaranteed separately. The requirement of a signature guarantee is to protect a shareholder's account from unauthorized transactions. ►►

Implementation Strategy

Where and when required, a signature or signatures may be guaranteed by the Firm. If shares are registered in more than one name, the signature of each shareholder must be guaranteed separately. The requirement of a signature guarantee is to protect a shareholder's account from unauthorized transaction. All methods of the verification process shall be documented and retained as evidence of supervision and compliance.

18.20 Receipt of "Block Letters"

In previous incidents of mutual fund trading, some firms have been accused of effecting mutual fund exchanges for customer accounts that had exceeded, or were otherwise inconsistent, with a fund's annual exchange limit as stated in its prospectus which resulted in the issuance of a "block letter." As such, the Firm will remain diligent in reviewing for any registered representatives engaging in deceptive conduct so customers could exchange funds in excess of prospectus limits, or using different account numbers to evade or otherwise circumvent "block restrictions." ►►

Implementation Strategy

In the event that the Firm receives a "block letter" from an investment company for suspected market timing and/or excessive trading/exchange activities (which exceed or are otherwise inconsistent with a fund's annual exchange limit), the Firm's designated supervisor will immediately investigate and halt such trading activity to prevent further activity in the account. Furthermore, the designated supervisor will also review for any additional accounts in the customer's name that may exist, or that may have been opened to circumvent the block restrictions on the account. A review of the fund's exchange limits will also be reviewed to ensure that future incidents do not occur. Any discovery of a circumvention of block restrictions will be immediately reviewed and corrective action issued involving the participating registered representative, including but not limited to termination. The designated supervisor shall also file all records in their appropriate and corresponding file to be located in a convenient and accessible location for a designated period before being moved to a more remote long-term storage location (if applicable).

18.21 Mutual Fund Directed Brokerage Arrangements

In accordance with Rule 2830(k)(2), no member shall sell shares of, or act as underwriter for, an investment company, if the member knows or has reason to know that such investment company, or an investment adviser or principal underwriter of the company, has a written or oral agreement or understanding under which the company directs or is expected to direct portfolio securities transactions (or any commission, markup or other remuneration resulting from any such transaction) to a broker or a dealer in consideration for the promotion or sale of shares issued by the company or any other registered investment company. (Ref. NTM 05-04) ►►

Implementation Strategy

The Firm's designated supervisor or his designee is responsible for monitoring mutual fund transactional activity and periodically reviewing supporting mutual fund documentation through internal branch office inspections and annual Home Office inspections to ensure that the Firm is not selling shares of, or acting as underwriter for (if applicable), a fund company if the Firm knows or has reason to know that such fund company has a written or oral agreement or understanding under which the company directs or is expected to direct portfolio securities transactions to a particular broker or a dealer in consideration for the promotion or sale of shares issued by the company or any

other registered investment company. Any findings resulting from such reviews will be properly recorded as documentary evidence of review.

18.22 Sales Charge Waivers (Exchanges and Reinstatements)

In most case, fund families will offer investors a *right to exchange* their holdings of a fund within the fund family for another fund within the fund family, without an additional sales charge. Various conditions and restrictions may apply, depending on the fund family. The prospectus will outline the terms governing whether an investor can avoid paying a sales charge on an exchange. Some of those conditions and restrictions relate to:

- time frame (e.g., shares must be held for at least one day prior to the exchange);
- exchanges may be limited to the same class of fund previously held;
- exchanges may be limited to a maximum number per year; and
- fees may be charged for certain exchanges.

Some families of funds offer a *reinstatement feature*. This permits an investor who previously owned shares in a mutual fund to repurchase shares in the same fund (or in another fund within the same fund family) without paying a sales load. Some restrictions may apply; for instance, there may be a time limit (e.g., 90 days or six months from the date of initial sale) within which the reinstatement feature must be exercised, or it is lost. Funds may also limit the use of their reinstatement feature by an investor to one time for any given group of shares. Contingent deferred sales charges, paid by the investor at the time of sale, may be reimbursed upon reinstatement, depending upon the terms stated in the prospectus. Additionally, some fund families permit reinstatement at net asset value if the monies being reinstated are coming from the sale of shares from a different fund family where the customer previously paid a sales charge. ►►

Implementation Strategy

Regarding sales charge waivers, the firm considers certain requests for "waivers" in accordance with participating mutual fund criteria and in accordance with applicable rules.

Additionally, certain sales charge waivers may be granted to employees of FINRA member firms as defined under FINRA rules, and/or mutual fund trades in excess of \$1,000,000 in accordance with the terms and conditions of participating mutual fund companies.

18.23 Books and Records Requirements (Breakpoint Documentation)

The requirement for broker/dealers to maintain books and records is detailed in *SEC Rule 17a-4*, as amended and effective May 2, 2003, which mandates the length of time that a firm's books and records must be preserved. Firms are generally required to keep records between three to six years, and in some cases for the life of the company. Furthermore, SEC Rule 17a-4, as amended and effective May 2, 2003, also stipulates that certain documents must be kept at convenient and accessible location for a designated period before being moved to a more remote long-term storage. ►►

Implementation Strategy

Consistent with SEC Rule 17a-4, the designated principal will ensure all relevant documentation and information used to implement the Firm's internal mutual fund breakpoint assessment will be maintained for a period of six years and that such records will be readily available for the next two years.

18.24 **Alternative Mutual Funds (“Alt Funds”)**

Alternative mutual funds, also sometimes referred to as “alt funds” or “liquid alts” (“Alt Funds”), are open-end registered investment companies that seek to achieve their objectives through investments in non-traditional investments or asset classes.

Reasonable Due Diligence Process for Alt Funds

In the event that the Firm elects to market and/or recommend Alt Funds to its customers, the Firm will review the unique risks and features of the Alt Funds before approving them for sale to customers.

Implementation Strategy

The designated supervisor will conduct reasonable due diligence on each proposed Alt Fund for consideration and ultimate approval for sale through the Firm.

Supervision and Trade Review of Alt Funds

Firms must conduct effective oversight of registered representatives' recommendations of Alt Funds.

Implementation Strategy

The designated supervisor will review Alt Fund transactional activity for matching customer's investment objectives and risk profile with the Alt Funds' benefits, risks, features and characteristics.

Alt Funds related Communications with the Public

Firms should review whether retail communications they used to market Alt Funds provided a sound basis for evaluating the facts with respect to these products.

Implementation Strategy

The designated supervisor will conduct regular reviews of any Alt Fund specific communications with the public to ensure that such communication is fairly balanced with respect to the benefits and risks of these products and that such communications are appropriately targeted to customers and/or prospective customers with higher risk profiles (moderate/aggressive risk tolerance) similar to the unique risks and characteristics of Alt Funds.

Training and Education

Firms engaging in the sale of Alt Funds are responsible for ensuring that their registered representatives receive sufficiently training on Alt Fund products and about their unique characteristics and risks.

Implementation Strategy

The designated supervisor will monitor Firm-related training and educational activities to ensure that all registered persons engaged in the sale of Alt Funds have completed sufficient training on Alt Funds products before recommending such products.