



# BROKERAGE COMPENSATION, ADVISORY FEES AND CONFLICTS DISCLOSURE

## Understanding our fees, charges and other compensation

June 2020

### Important information about:

- How we are paid by you
- Payments we receive from third parties
- How your Financial Professional is compensated
- Conflicts of interest

## **Introduction**

**About Lion Street:** Lion Street Financial (“LSF”) is a broker-dealer registered with the Securities and Exchange Commission (“SEC”) and member of the Financial Industry Regulatory Authority (“FINRA”). Lion Street Advisors (“LSA”) is also registered as an investment adviser with the SEC. The firm operates across the country and offers insurance products in all 50 states.

LSF and LSA boast a network of individuals, referred to as “financial professionals,” who offer brokerage services, investment advisory services or both, depending on their licenses.

LSF and LSA’s financial professionals are primarily independent contractors. The firm’s financial professionals operate throughout the U.S. and often market services under their own business name. Some of the investment products offered may include various securities products, including mutual funds, exchange-traded funds, variable annuities, variable life insurance, municipal fund securities, alternative investments and general securities, such as stocks and bonds.

This disclosure contains information about the business practices, compensation and conflicts of interest related to the brokerage business of LSF and LSA (referred to as “we,” “us,” or “the firm”).

Additional information about the firm and its financial professionals is available on FINRA’s website at <http://brokercheck.finra.org>. Information related to our advisory practices can be found in our Form ADV at <https://adviserinfo.sec.gov/firm/summary/167610>.

## **About our fees, charges and other compensation — general**

The firm offers a range of investments and services to its clients. As you work with your financial professional to determine the appropriate investments and services to help achieve your investment goals, it is also important for you to understand how your Broker-Dealer, Investment Advisor and Financial Professional are compensated. This is because various forms of compensation may create potential conflicts of interest. Our goal is to make sure our clients are informed about the costs of the various investment products and services that we offer, which is why we publish this overview of our fees and how we generate revenue.

**Brokerage and advisory services** - As an LSF/LSA client, you benefit from the broad scope of services and resources of a leading financial services firm, whether we serve you as a broker-dealer, investment advisor or both. While there are similarities between the brokerage and advisory services we provide, there are important differences, including the pricing structures for these services as well as the monitoring of accounts.

**Brokerage relationships generate transaction-based compensation** - Investors pay transaction-based fees in connection with the products and services they receive, such as buying and selling stocks, bonds, mutual funds, annuity contracts and other investment products, as well as trading and exercising options. These include commissions, transaction fees, loads and sales charges. Compensation includes commissions, sales concessions, transaction fees, sales charges or expenses that are embedded in the purchase price as well as compensation from third parties in some cases.

In a brokerage account, your cost generally increases or decreases as a result of the frequency of transactions in the account and the type of securities you purchase. This presents a conflict in that the more you trade or invest, the more revenue we can generate from your account. When handling your brokerage account, we are obligated to ensure that our recommendations are in your best interest and trade only as necessary.

**Monitoring Brokerage Accounts** - In brokerage accounts, our financial professionals do not provide ongoing monitoring of your account after the recommendation. If you want to have your account monitored on an ongoing basis, ask your financial professional about establishing an advisory account relationship.

**Advisory relationships have fee-based compensation** - Clients pay a set fee or a fee based on a percentage of the assets in the account according to an investment advisory program agreement. In some circumstances, LSF, LSA, our Financial Professionals and our affiliates receive additional compensation from third parties in connection with the assets in clients' advisory accounts. This compensation is in addition to the fee that a client pays for investment advisory services. For certain alternative investments in advisory accounts, the compensation also includes performance fees.

**Monitoring in Advisory Accounts** - In an investment advisory account, your financial professional will act as a fiduciary to you and we will provide ongoing monitoring of your account in accordance with the terms of our written agreement with you.

Since we operate as both a broker-dealer and registered investment adviser, you should ask what capacity your financial professional is acting in or will be acting in — as a broker-dealer registered representative and/or an IAR — when providing services to you. You should also ask if there are any limitations on the products or services a financial professional may offer.

There is a large universe of products in the marketplace however, the scope of products and services we offer may be more limited than what is available through other firms. Our financial professionals only offer investment products with whom we have entered into selling and distribution agreements. This presents a conflict since you are not able to purchase those other products or services through us. We disclose this conflict to you and mitigate it by maintaining a robust offering of products and services.

While some securities are only available in a brokerage account, other securities may be owned in either a brokerage account or directly held with the product sponsor ("directly held").

With a directly held account, you will purchase the investment directly with the product sponsor, which is responsible for sending you confirmations and account statements. With a directly held account, you may only hold products issued by that product sponsor. Brokerage accounts may have annual maintenance fees and fees for transactions and other services while directly held accounts typically do not charge such fees, which could make directly held accounts less expensive.

While there are important differences between brokerage and directly held accounts, we do not require your financial professional to open a particular type nor do we incent them to open one type over the other. Talk to your financial professional about which type of account is best for you

**Pricing of products and services** - Clients may purchase many of our products and services in either transaction-based or fee-based accounts or a combination of both.

**Factors that affect pricing** - It is difficult to compare transaction-based and fee-based options solely based on price. You may pay more or less in a fee-based program than you would pay if you purchased the products and

services separately in a transaction-based account. The costs of either type of account depend on several factors, including:

- Product and service preferences
- Size and value of your account(s)
- Mix of products you hold
- Frequency with which you trade
- Administrative or management fees associated with the products or services you purchase

Please consider the costs and services associated with each option carefully and speak with your Financial Professional about which approach is most appropriate for you.

## Sources of revenue

Our firm earns revenue from our clients, and, for some products and services, from third parties, including product vendors, underwriters and investment managers whose products and services are purchased by clients.

**Revenue received from clients** - In general, our firm, receives revenue from clients in the following ways:

- Asset-based and other fees for our investment advisory programs and services
- Administrative fees including but not limited to; account maintenance fees, ticket charges, and service fees
- Sales loads, commissions or fees for various financial products, such as mutual funds, alternative investment funds, unit investment trusts (UITs), insurance and annuities and markups and markdowns if we affect a transaction in bonds on a principal basis.

**Revenue from third parties** - In addition to revenue that we receive from clients, LSF earns revenue from third parties in the following ways:

- Mutual fund and insurance companies pay us for offering and placing their products, and many of them also pay us for marketing support, known as revenue sharing, which is based on our total sales of and/or total client assets in their products (i.e. 12b-1 fees and trails).
- Third parties providing investment advisory or investment management services pay us fees in the form of a recurring fee, a one-time fee, a portion of the third party's fees or revenues or as otherwise agreed with the third party, for solicitations, referrals or client services.
- Fees from our custodian, Pershing LLC.

Our receipt of revenue sharing payments creates a potential conflict of interest in that we have an incentive to offer products from product partners that pay us revenue sharing. There is also a conflict in that we receive more revenue for certain product types than others. We address these conflicts by disclosing them to you and by not sharing any of the payments with our financial professionals, who are free to offer various product types, as well as products from firms that do, or do not, pay revenue sharing to us.

For more information regarding our service and fees are available on [www.lionstreet.com](http://www.lionstreet.com).

## Financial Professional compensation

We generally compensate financial professionals pursuant to an independent contractor agreement, and not as employees. In general, we pay our Financial Professionals cash compensation consisting of:

- The production payout is a percentage (called a payout or grid rate) of the product-related revenue (called production) that each Financial professional generates during that month with respect to the clients he or she serves, minus certain adjustments to cover the cost of doing business.

We reserve the right, at our discretion and without prior notice, to change the methods by which we compensate our Financial Professionals and employees, including reducing and/or denying production payout and/or awards at our discretion for any reason.

For our Investment Advisory Programs (asset-based fee programs), the payout rate is applied to the program fees credited to the Financial Advisor by the firm.

### **Compensation from the purchase and sale of investment products**

In general, our Financial Professionals are compensated from the following sources of revenue:

- Commissions charged to clients in connection with the purchase, or sale, of equities, fixed income products and other investments
- Asset-based fees and hard-dollar fees charged in connection with our investment advisory programs and financial planning services
- Sales loads, commissions and 12b-1 fees for various financial products such as mutual funds, offshore funds, alternative investment funds, unit investment trusts, insurance and annuities
- Marketing allowance

The payout level may vary based on the financial professional's agreement with us. Some investments provide more compensation to your financial professional than others, which creates a conflict in that it can influence the investment product recommendation.

### **Other forms of compensation**

- Financial Professionals joining LSF and/or LSA may receive a forgivable loan to help offset the loss of compensation while they move their business from one firm to another.
- Financial Professionals may qualify for travel awards that are funded by product sponsors, carriers, and other third-party vendors.
- Financial Professionals may have other lines of business, known as an outside business activity. This could be businesses like life insurance sales, tax preparation, and consulting services.

### **Non-cash compensation**

We receive (and our Financial Professionals also receive) non-cash compensation from mutual fund companies, investment managers, UIT sponsors, annuity providers, insurance vendors and sponsors of products that we distribute. This compensation includes the following:

- Occasional gifts up to \$100 per vendor per year
- Occasional meals, tickets or other entertainment of reasonable and customary value
- Sponsorship support of educational or training events (which include educational events Financial Professionals arrange for clients and prospects) and seminars and/or payment of expenses related to training and education of employees, which can (and often do) include a non-training element of the event
- Various forms of marketing support and, in certain limited circumstances, the development of tools used by the firm for training or recordkeeping purposes

The receipt of cash and non-cash compensation from sources other than clients, and the differences in which we compensate Financial Professionals for the products we offer, create an incentive for Financial Professionals to recommend certain products over others. We address these conflicts of interest by maintaining policies and

procedures on the suitability and supervision of the products and services we offer to you, and by disclosing our practices to ensure you make a fully informed decision.

### **Additional compensation**

**Owners Life Incentive Plan** – LSF and LSA are owned by our parent company, Lion Street, Inc. (“LSI”). LSI is an ownership network of life insurance professionals. Within LSI, the is the Owners Life Incentive Plan (OLIP). This is a compensation plan sharing a portion of LSI gross revenue with owner firms based on their aggregate earned first-year commissions from all insurance products including products sold through LSF. While gross revenue varies by volume and carriers, LSI is completely objective about product and carrier choice; there is no differential compensation based on the product chosen. OLIP participation is an annual qualification and level earned is retroactive to the first of the year.

### **Conflicts of interest**

Conflicts of interest arise because of the firm’s interests and our relationships with multiple clients, other financial services firms and vendors with whom we conduct business. Examples of conflicts of interest that arise as a result of our compensation structures are described below.

#### **Financial Advisor compensation**

The receipt of cash and non-cash compensation from sources other than clients, and the differences in the way we compensate Financial Professionals for the products we offer, create an incentive for Financial Professionals to recommend certain products over others. We address these conflicts of interest by maintaining policies and procedures on the suitability and supervision of the products and services we offer to you, and by disclosing these conflicts so that you can make a fully informed decision.

#### **Products recommended must be offered by LSF**

Please note that your Financial Professional may only recommend or refer you to investments and products that are offered for sale by LSF or through the LSF platform. For most products that are offered by LSF, you will receive a trade confirmation and these investments will be reflected on your statement of account (limited exceptions include certain insurance products and referral arrangements). Trade confirmations that indicate “solicited” highlight transactions that were recommended by your Financial Professional. Please review your trade confirmations and account statements promptly to ensure they are accurate and consistent with your instructions and investment objectives. If you do not receive a trade confirmation or have any questions or concerns about whether a recommended product or service is offered by LSF or through our platform, please contact a member of your Financial Professionals team at your LSF branch office.

#### **Supplemental Compensation**

Financial Professionals who meet specific criteria for the sale of Equity Index Annuities are eligible to earn supplemental compensation. The potential payout for qualifying Financial Professionals is determined in part by using a formulaic evaluation. This compensation is made available by a fixed indexed annuity carrier. A very limited number of Financial Professionals qualify for supplemental compensation.

#### **Revenue sharing**

When LSF receives revenue sharing compensation or distribution support from distributors or professionals of mutual funds, annuity products, UITs and other products we offer, it presents a conflict of interest between our interests and those of our clients.

### **Non-cash compensation and Marketing Support**

When vendors decide to contribute toward training and educational programs, in some instances the contributions per vendor (as well as the aggregate received from all vendors) are significant. Financial Professionals do not receive a portion of these payments. However, Financial Professionals' receipt of non-cash compensation such as occasional gifts, meals or entertainment and/or their attendance and participation in educational or training forums, and the increased exposure to vendors who sponsor these events, may lead Financial Professionals to recommend the products and services of those vendors as compared to those vendors that do not provide non-cash compensation or sponsor such events.