

What do **ALL CAPTRUST** Financial Advisors and support persons need to know about **Regulation Best Interest**?

Reg BI applies **BEST INTEREST STANDARD OF CARE** to *Broker Dealers* doing business with retail customers. As an *Investment Adviser*, CAPTRUST's Standard of Care is *Fiduciary* which **already requires** us to place the interest of the client **ABOVE** our own interest. So, if we have entered into an advisory agreement with our client, we are **already OBLIGATED** to provide advice in our client's best interest.

Attention Registered Representatives (FINRA registered persons) of our Affiliate Broker Dealer, CapFinancial Securities:

- 1) Regulation Best Interest *does not apply* to investment advice provided by CAPTRUST, in its capacity as a registered investment adviser, to a retail customer, even if the retail customer has a brokerage relationship with CapFinancial Securities (CFS) and CFS executes the transaction. We must have a signed investment advisory agreement for each of the customer's accounts otherwise, Reg BI applies.
- 2) CFS brokerage services are only provided on an ancillary basis to *CAPTRUST investment advisory clients* who may need products and services that are traditionally sold in a broker-dealer capacity, like 529 Plans, annuities, held away mutual fund accounts, etc.
- 3) Account monitoring is part of *CAPTRUST's* continuous and regular investment supervision, not a service provided by CFS. If you are going to monitor an account on a continuous and regular basis, you may do so ONLY under a CAPTRUST Investment Advisory Agreement (IAA), regardless of whether or not CAPTRUST is charging a fee. Customers of CFS (broker-dealer) must be serviced per Compliance guidelines which may differ from CAPTRUST (registered investment adviser).

Every Securities recommendations must be in the retail customer's best interest. The firm and the associated person (AP) may not place their interests ahead of the retail customer's (this is a *fiduciary standard*). This is a change from FINRA's *suitability standard*, which does not have an explicit best interest requirement.

Important Concepts Under Reg BI

- **Retail customer:** a natural person, or the legal representative of such person, who: receives a recommendation of any securities transaction or investment strategy involving securities from a broker-dealer; and uses the recommendation primarily for personal, family, or household purposes;

- **Recommendations:** we must provide certain required disclosures, before or at the time of the **recommendation**, about the recommendation and the relationship between the CFS and its retail customer; a) Reg BI applies to **recommendations** of any **securities transaction** or investment **strategy involving securities** (including **Account Recommendations**) to a retail customer; b) **Account Recommendations** include recommendations of securities account types generally (e.g., to open an IRA, 529, variable annuity, or other brokerage account); c) **Account Recommendations** also include recommendations to *roll over or transfer assets from one type of account to another* (e.g., a workplace retirement plan account to an IRA). d) **Securities Recommendations** include any securities transaction or investment strategy involving securities includes *explicit* hold recommendations; and *implicit* hold recommendations that are the result of agreed-upon account monitoring between the broker-dealer and retail customer.

However, **CFS does not agree to perform account monitoring**. Remember Regulation Best Interest does not apply to investment advice provided by CAPTRUST, in its capacity as registered investment adviser, to a retail customer, even if the retail customer has a brokerage relationship with CapFinancial Securities (CFS) and CFS executes the transaction.

- **Reasonable Basis and Client Profile:**

In order to reasonably determine whether a recommendation is appropriate for and in the best interest of a specific client, we must create a Client Profile (or other equivalent questionnaire) by collecting the following information at account inception and when there are any changes to a Client Profile. We capture the Client Profile information on CFS New Account Form.

- **When making an Account Recommendation, Financial Advisors will be required to document their Best Interest determination upon the New Account Form and acknowledge their obligations under Reg BI.**

The best interest standard is an overarching obligation, which is satisfied only if you comply with 4 component obligations:

- 1 **The Disclosure Obligation:** we must provide certain full and fair disclosures, before or at the time of the **recommendation**, about the recommendation and the relationship between the CFS and its retail customer.
 - all material facts relating to the **scope and terms** of the relationship with the retail customer; and
 - all material facts relating to **conflicts of interest** that are associated with the recommendation.

- That we are acting as a representative of a broker-dealer with respect to the recommendation and we must fully disclose:
 - **material fees and costs** that apply to the retail customer's transactions, holdings, and accounts, and;
 - the **type and scope of the services** to be provided to the retail customer, **including any material limitations** on the securities or investment strategies that may be recommended to the retail customer;
 - explain that CFS **will not monitor** the retail customer's account; and
 - explain any **requirements** for retail customers to open or maintain an account or establish a relationship, such as a minimum account size;
 - **general basis** for the Firm's recommendations (i.e., what might commonly be described as the Firm's investment approach, philosophy, or strategy); and
 - **risks** associated with the Firm's recommendations in standardized terms
 - finally, we must consider, based on the facts and circumstances, whether there are other material facts relating to the scope and terms of the relationship with the retail customer that need to be disclosed.

- **Conflicts of Interest that must be disclosed:** a conflict of interest is "an interest that might incline a broker, dealer, or a natural person who is an associated person of a broker or dealer – consciously or unconsciously – to make a recommendation that is not disinterested."

Such conflicts include payments from third parties (like commissions, placement fees, 12b1s, shareholder servicing fees or any other compensation arrangements that are connected to a product or transaction.

We must disclose all **material facts** relating to conflicts of interest associated with the recommendation.

Delivery the Form CRS and specific conflicts disclosures

Firms are required to deliver Form CRS to existing clients:

1. when a new account is opened that is different from a retail investor's existing brokerage account;
2. when recommendation is made to rollover assets from a retirement account into a new or existing brokerage account;
3. when you recommend or provide a new brokerage product that would not be held in an existing account (examples include a first-time purchase of direct-sold mutual fund or variable annuity or a private placement);
4. when any of the disclosures contained within the Form CRS change; and
5. within 30 days of any customer's request.

2 The Care Obligation: we must exercise **reasonable diligence, care, and skill** when making a recommendation to a retail customer to:

- understand potential risks, rewards, and costs associated with recommendation, and have a reasonable basis to believe that the recommendation could be in the best interest of at least some retail customers;
- have a reasonable basis to believe the recommendation is in the best interest of a particular retail customer based on that retail customer's investment profile and the potential risks, rewards, and costs associated with the recommendation and does not place the interest of the broker-dealer ahead of the interest of the retail customer; and
- have a reasonable basis to believe that a series of recommended transactions, even if in the retail customer's best interest when viewed in isolation, is not excessive and is in the retail customer's best interest when taken together in light of the retail customer's investment profile.

All Financial Advisors, support persons and supervisors will be required to certify on an annual basis that they have read, understand, and complied with the Care Obligation.

3 The Conflict of Interest Obligation: we must establish, maintain, and enforce written policies and procedures reasonably designed to address conflicts of interest; and identify and at a minimum disclose, pursuant to the Disclosure Obligation, or eliminate all conflicts of interest associated with such recommendations;

- Identify and mitigate any conflicts of interest associated with such recommendations that create an incentive for the Firm's and/or its associated persons to place their interests or the interests of the Firm ahead of the retail customer's best interest;
- Identify and disclose any material limitations, such as a limited product menu or investment strategies involving securities that may be recommended to a retail customer and any conflicts of interest associated with such limitations, and
- prevent such limitations and associated conflicts of interest from causing the Firm or the associated person to place the interests of the Firm or the associated person ahead of the retail customer's interests; and
- Identify and eliminate sales contests, sales quotas, bonuses, and non-cash compensation that are based on the sale of specific securities or specific types of securities within a limited period of time.

4 The Compliance Obligation: we must establish, maintain, and enforce written policies and procedures reasonably designed to achieve compliance with Reg BI which include controls, remediation, non-compliance training, periodic review and testing.