NFP
Advisor Services Group

2013 NFP STRATEGY SUMMIT

Understanding Alternative Investments

Understanding Alternative Investments

Presented by:
Susanne Denby, Kelly L Edwards,
and Ryan Penshorn

Regulatory Environment

Presented by:
Susanne Denby

Regulatory Environment

- FINRA Regulatory Notice 12-03
- Valmark Securities, Inc. (CRD #31243, Akron, Ohio) and Richard Michael Arceci (CRD # 1173612, Registered Principal, Sagamore Hills, Ohio)
- Erin Christine Ackerman (CRD #4663913, Registered Principal, Henderson, Nevada)

Regulatory Environment

Complex Products Receiving More Attention from FINRA

- Heavily scrutinized during exams and state regulators are becoming active

Regulators Expect Rigorous Training and Proper Disclosure to Clients

- AI Insight and the new alternative investment disclosure

Regulatory Environment

Continued Low Interest Rate Environment

↓

Clients Demanding Higher Returns

↓

Expect Perpetual Scrutiny from Regulators

Disclosure, Training and Best Practices

Presented by:
Ryan Penshorn

New Disclosure

- Combines all forms into one!
  - AI Disclosure, 2111 Addendum, and Limited Liquidity
  - Bundled and pre-populated in AdvisorComplete℠ July 2013

Alternative Investment and Limited Liquidity Investment Disclosure

Account Registration:	
Product Description:	**Today's Purchase(s) Amount: $**

FINANCIAL PROFILE — *Required*

Estimated Annual Income **$**	Liquid Net Worth **$**

Investment Objectives* *Please rank Investment Objectives 1-3 (1 being the highest, 3 being the lowest)* ☐ Income ☐ Growth ☐ Speculation ***See Customer Agreement for definitions**	Risk Tolerance (select only one) ☐ Conservative ☐ Moderate ☐ Aggressive	Time Horizon (Years)

Please indicate the level of previous product knowledge **below** (Example: "N" None, "L" Limited, "G" Good, or "E" Extensive)

Stocks ___	Bonds ___	Mutual Funds ___	Options ___	Variable Annuities ___	Variable Life ___	Alternative Investments ___

Assets Held Away

Total Value of assets held away from NFP Securities:

$

☐ *I* ***decline*** *to provide the* ***assets held away information above/to the right*** *and acknowledge it is in my best interest to disclose outside holdings to my advisor*

Provide total value of assets held away and percentage for each type of asset:	
CDs/Cash	%
Stocks	%
Bonds	%
Options	%
Mutual Funds	%
Variable Annuities	%
Variable Life	%
Alternative Investments	%
Other Product Type(s)	%
Total (Must equal 100%)	%

Decision Making Experience:

____(Y/N) I typically make my investment decisions with the assistance of a financial advisor.

Cash/Cash Equivalents

$

Anticipated 12-24 Month Special Liquidity Needs

☐ $0- $50,000
☐ $50,000 - $100,000
☐ $100,000 - $250,000
☐ $250,000+

Bordered questions for commissionable BD accounts only

LIMITED LIQUIDITY CALCULATION — *If Applicable*

Illiquid Alternative Investment: *An asset that* ***cannot*** *be converted to cash within a 90-day notice period, after initial 12 month lock-up if applicable.*

Is today's purchase considered an illiquid investment? ☐ Yes ☐ No ***If yes, please complete the calculation below***

$__________Today's proposed illiquid purchase(s)
+ $__________Total of all existing illiquid holdings
= $__________Total proposed illiquid holdings

÷

$____________ Liquid assets (1)
(Includes cash and cash equivalents)

=

Total client illiquid investment holdings as a % of current total *liquid* net worth
__________%

(1) Liquid Assets: An asset that can be converted to cash within a 90-day notice period (Minimum quarterly liquidity event regardless of fees or penalties to liquidate).

Purpose for Purchase — *Required*

Please describe (in detail) the primary needs and objectives of the client:
____
____

Please describe (in detail) how the proposed product can meet the client's needs:
____
____

AI Insight Training

- Required prior to solicitation and sale for each approved offering
- Provides overview of each product
- Mastery test at the end of each section for registered reps

Coming Soon!
Assistant Login

Real Estate (7)

REIT Non-Listed and REIT AND Non-Traded/Publicly Listed (7)

Sponsor Name	Program Name	Corporate Summary	Program Summary	Education Modules	Executive Summary
American Realty Capital (AR Capital, LLC)	American Realty Capital Trust IV, Inc.	Quarterly Update Notes Access restricted by Broker Dealer	Access restricted by Broker Dealer	Test not available.	Access restricted by Broker Dealer
CNL Securities Corp.	Global Growth Trust, Inc	Quarterly Update Notes Access restricted by Broker Dealer	Access restricted by Broker Dealer	Test not available.	Access restricted by Broker Dealer
Cole Real Estate Investments	Cole Credit Property Trust IV, Inc.	Quarterly Update Notes Access restricted by Broker Dealer	Access restricted by Broker Dealer	Test not available.	Access restricted by Broker Dealer
Dividend Capital	Dividend Capital Industrial Income Trust	Quarterly Update Notes Access restricted by Broker Dealer	Access restricted by Broker Dealer	Test not available.	Access restricted by Broker Dealer
Griffin Capital	Griffin-American Healthcare REIT II, Inc	Quarterly Update Notes Access restricted by Broker Dealer	Access restricted by Broker Dealer	Test not available.	Access restricted by Broker Dealer
KBS Capital Markets	KBS Real Estate Investment Trust III, Inc.	Access restricted by Broker Dealer	Access restricted by Broker Dealer	Test not available.	Access restricted by Broker Dealer
Wells Real Estate Funds	Wells Core Office Income REIT, Inc.	Access restricted by Broker Dealer	Access restricted by Broker Dealer	Test not available.	Access restricted by Broker Dealer

Debt and/or Equity of Privately Owned Companies (3)

BDC – Non-Traded/Non-Listed (3)

Sponsor Name	Program Name	Corporate Summary	Program Summary	Education Modules	Executive Summary
CNL Securities Corp.	Corporate Capital Trust, Inc.	Quarterly Update Notes Access restricted by Broker Dealer	Access restricted by Broker Dealer	Test not available.	Access restricted by Broker Dealer
Franklin Square Capital Partners	FS Energy and Power Fund	Quarterly Update Notes Access restricted by Broker Dealer	Access restricted by Broker Dealer	Test not available.	Access restricted by Broker Dealer
Franklin Square Capital Partners	FS Investment Corporation II	Quarterly Update Notes Access restricted by Broker Dealer	Access restricted by Broker Dealer	Test not available.	Access restricted by Broker Dealer

Best Practices

Good	• Appropriate for savvy clients • Small percentage of assets where suitable • Let’s discuss risks, costs, and features
Bad	• Alternative investments are my specialty • Replacing significant traditional fixed income positions • Large portion of client’s assets • Client signed the disclosure form
Ugly	• These are low risk! • Appropriate for everyone!

Alternative Investment Business Processing

Presented by:
Kelly Edwards

Should I go Direct or through National Financial?

National Financial	Direct
One statement	No transaction or custody fees
Transaction & custody fees	Statement for each vendor
Approved by NFP & National Financial	Approved by NFP

Paperwork Requirements

National Financial

- **Subscription Agreement** (product sponsor supplied)
- **NFP Alternative Investment Disclosure** (must be submitted with each purchase)
- **NFP Limited Liquidity Asset Disclosure** (If exceeds 25% of client's liquid net worth)
- **NFP Commissionable Alternative Investment New Account Form Addendum** (For accounts est. before Sep 2012)
- **Entity documents** (if required by product sponsor)
- **NFS Alternative Investment Addendum & Custody Agreement** (one per account)
- **NFS Alternative Investment Request for Transaction** (must be submitted with each purchase or redemption)

Direct

- **Subscription Agreement** (product sponsor supplied)
- **NFP Alternative Investment Disclosure** (must be submitted with each purchase)
- **NFP Limited Liquidity Asset Disclosure** (If exceeds 25% of client's liquid net worth)
- **Direct Business New Account Form** (must be submitted once for each registration)

Items Required to Begin Processing

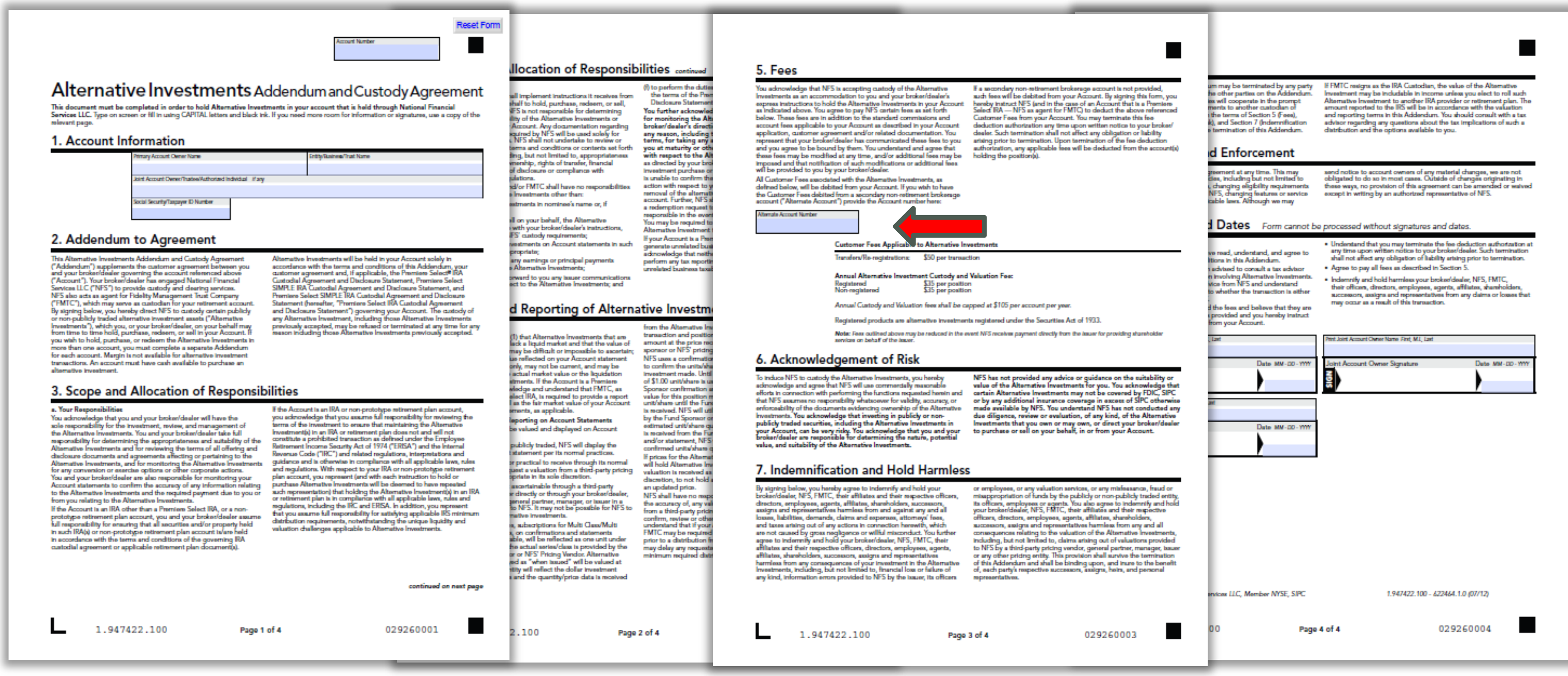
What three things are required before we can begin processing an alternative investment in a <u>brokerage</u> account?

Items Required to Begin Processing

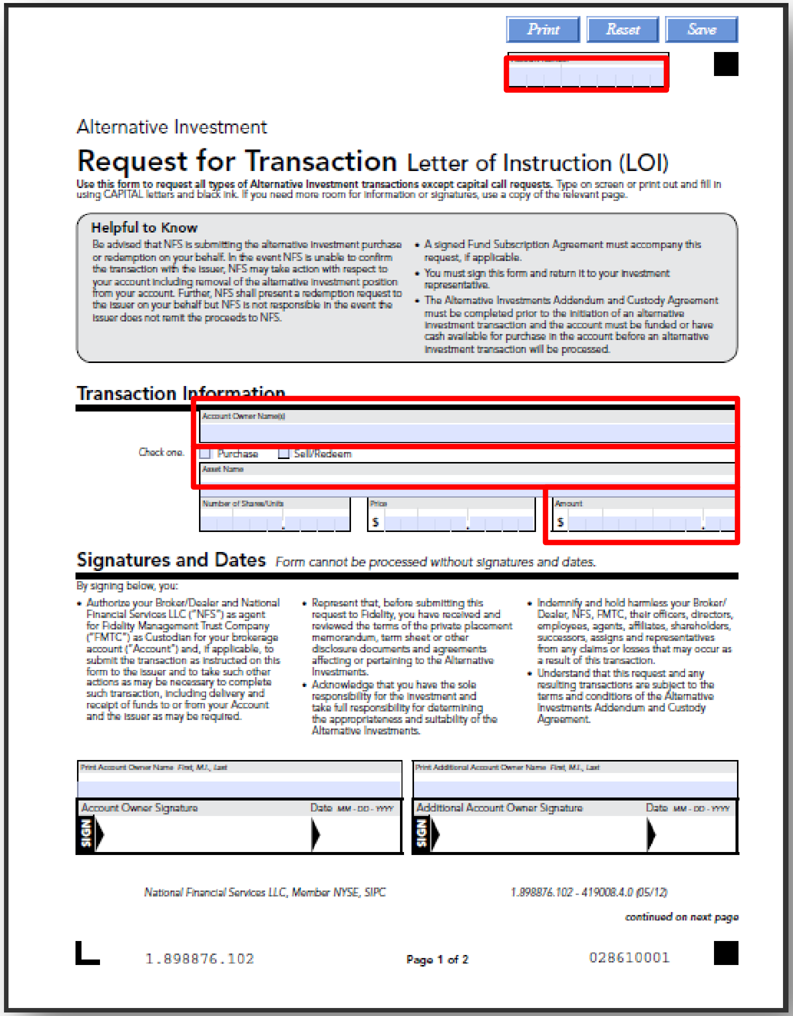
- Brokerage account
  - An account must already be established by the client and preferably funded
- Approved product of both NFP Securities, Inc. and National Financial
- Completed requisite AI Insight module(s)

National Financial Alternative Investment Addendum & Custody Agreement Update

- Only one Custody Agreement needed per account.



National Financial Alternative Investment Forms



Print Reset Save

Alternative Investment

Request for Transaction Letter of Instruction (LOI)

Use this form to request all types of Alternative Investment transactions except capital call requests. Type on screen or print out and fill in using CAPITAL letters and black ink. If you need more room for information or signatures, use a copy of the relevant page.

Helpful to Know

Be advised that NFS is submitting the alternative investment purchase or redemption on your behalf. In the event NFS is unable to confirm the transaction with the issuer, NFS may take action with respect to your account including removal of the alternative investment position from your account. Further, NFS shall present a redemption request to the issuer on your behalf but NFS is not responsible in the event the issuer does not remit the proceeds to NFS.

- A signed Fund Subscription Agreement must accompany this request, if applicable.
- You must sign this form and return it to your investment representative.
- The Alternative Investments Addendum and Custody Agreement must be completed prior to the initiation of an alternative investment transaction and the account must be funded or have cash available for purchase in the account before an alternative investment transaction will be processed.

Transaction Information

Account Owner Name(s)

Check one. Purchase Sell/Redeem

Asset Name

Number of Shares/Units | Price $ | Amount $

Signatures and Dates *Form cannot be processed without signatures and dates.*

By signing below, you:

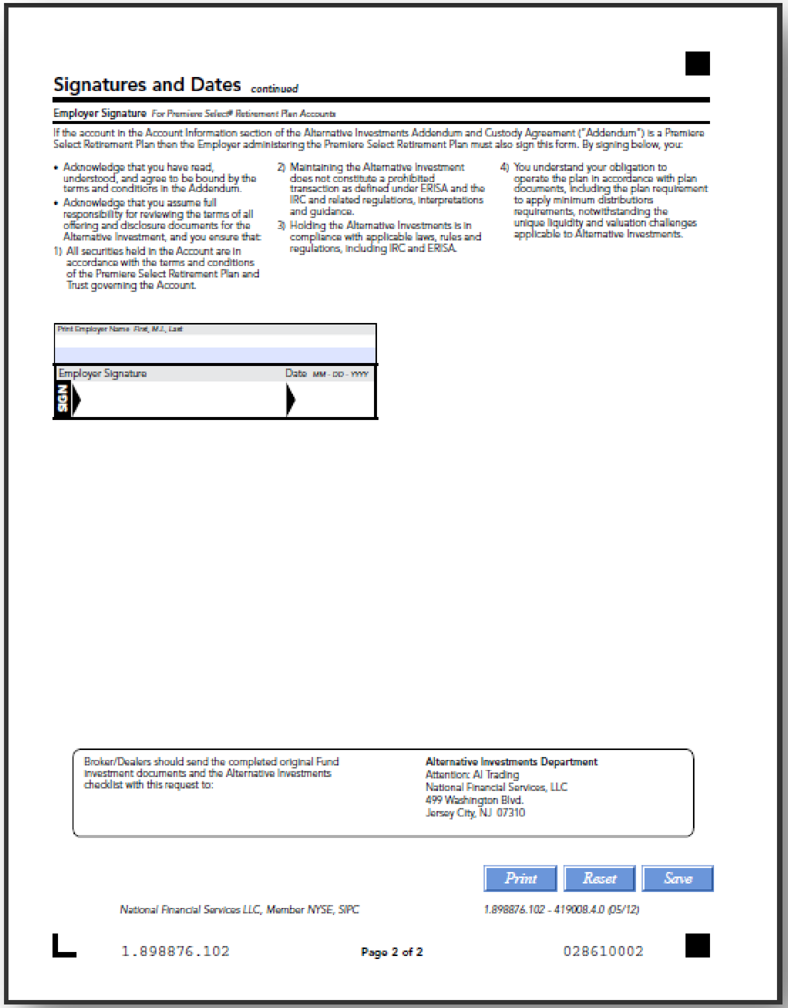
- Authorize your Broker/Dealer and National Financial Services LLC ("NFS") as agent for Fidelity Management Trust Company ("FMTC") as Custodian for your brokerage account ("Account") and, if applicable, to submit the transaction as instructed on this form to the issuer and to take such other actions as may be necessary to complete such transaction, including delivery and receipt of funds to or from your Account and the issuer as may be required.
- Represent that, before submitting this request to Fidelity, you have received and reviewed the terms of the private placement memorandum, term sheet or other disclosure documents and agreements affecting or pertaining to the Alternative Investments.
- Acknowledge that you have the sole responsibility for the investment and take full responsibility for determining the appropriateness and suitability of the Alternative Investments.
- Indemnify and hold harmless your Broker/Dealer, NFS, FMTC, their officers, directors, employees, agents, affiliates, shareholders, successors, assigns and representatives from any claims or losses that may occur as a result of this transaction.
- Understand that this request and any resulting transactions are subject to the terms and conditions of the Alternative Investments Addendum and Custody Agreement.

Print Account Owner Name First, M.I., Last | Print Additional Account Owner Name First, M.I., Last

SIGN Account Owner Signature Date MM - DD - YYYY | SIGN Additional Account Owner Signature Date MM - DD - YYYY

National Financial Services LLC, Member NYSE, SIPC *1.898876.102 - 419008.4.0 (05/12)*

continued on next page



Signatures and Dates *continued*

Employer Signature *For Premiere Select® Retirement Plan Accounts*

If the account in the Account Information section of the Alternative Investments Addendum and Custody Agreement ("Addendum") is a Premiere Select Retirement Plan then the Employer administering the Premiere Select Retirement Plan must also sign this form. By signing below, you:

- Acknowledge that you have read, understood, and agree to be bound by the terms and conditions in the Addendum.
- Acknowledge that you assume full responsibility for reviewing the terms of all offering and disclosure documents for the Alternative Investment, and you ensure that:

1) All securities held in the Account are in accordance with the terms and conditions of the Premiere Select Retirement Plan and Trust governing the Account.
2) Maintaining the Alternative Investment does not constitute a prohibited transaction as defined under ERISA and the IRC and related regulations, interpretations and guidance.
3) Holding the Alternative Investments is in compliance with applicable laws, rules and regulations, including IRC and ERISA.
4) You understand your obligation to operate the plan in accordance with plan documents, including the plan requirement to apply minimum distributions requirements, notwithstanding the unique liquidity and valuation challenges applicable to Alternative Investments.

Print Employer Name First, M.I., Last

SIGN Employer Signature Date MM - DD - YYYY

Broker/Dealers should send the completed original Fund investment documents and the Alternative Investments checklist with this request to:

Alternative Investments Department
Attention: AI Trading
National Financial Services, LLC
499 Washington Blvd.
Jersey City, NJ 07310

Print Reset Save

National Financial Services LLC, Member NYSE, SIPC *1.898876.102 - 419008.4.0 (05/12)*

Alternative Investment Paperwork

- When purchasing an alternative investment in a brokerage account, reps should send the subscription agreement directly to the product sponsor.

- You can submit copies or fax the paper work to NFP

TRUE

FALSE

Alternative Investment Paperwork

- Answer: False on both accounts
- Product sponsors require National Financial Medallion Stamp
- Product sponsors usually require original documents
- Original forms should be mailed to:

  NFP Securities, Inc.
  Attn: Trading Support - AI Processing
  1250 Capital of Texas Hwy, S - 2-125
  Austin, TX 78746

  - National Financial will accept copies of the Alternative Investment Addendum & Custody Agreement and Request for Transaction

Alternative Investment Custody Fee

- $35 per position, up to a maximum of three positions ($105 max) per account
  - Charges applied in December each year
- If insufficient funds
  - Unsecured fee posting will be placed in the account for the outstanding balance.
  - This fee is subject to write-off to the advisor if not covered by Jan. 31 of the following year.
- All registration types are subject to the custody fee
- Qualified accounts holding alternative investment positions are still subject to the IRA Annual Maintenance Fee
- Non-qualified accounts holding alternative investments are exempt from the inactivity fee

Alternative Investment Journals

Journals Between Like Registrations

- New Alternative Investment Custody agreement required for the receiving account (if not already on file)
- Plus any additional cashiering requirements
- No alternative investment transfer fee

Journals Between Unlike Registrations

- New Alternative Investment Custody agreement required for the receiving account (if not already on file)
- Any transfer forms required by the sponsor
- Additional forms may be required by sponsor. Contact them for details, ex. Death certificate, divorce decree, trust documents.
- Plus any additional cashiering requirements
- Alternative investment transfer fee is applicable

Alternative Investment Transfers

- Transfers into a National Financial account may take 30-60 days to complete

- Required forms:
  - **Alternative investment <u>product sponsor's</u> transfer/re-registration form**
  - **National Financial Transfer of Assets form**
  - **Addendum and Custody Agreement** (for receiving brokerage account if not already on file)
- Additional forms may be required by company holding the position. Contact them for details, ex. death certificate, divorce decree, trust documents
- $50 transfer/re-registration fee charged to the client account

What can I expect once NFP receives my paperwork?

- Upon receipt
  - Paperwork reviewed for completion and accuracy by Trading Support
  - Verify account is funded

- Paperwork is in good order and the client account is funded
  - Paperwork forwarded to an internal OSJ
  - Reviewed for suitability and approval
  - OSJ checks for AI Insight training

- Once the OSJ approves the paperwork, it is overnighted to National Financial for processing.

Alternative Investment Best Practices

- The standard processing time: 3 to 5 business days
- Open and funded account with NFS
- Account Number on all forms
- Wait until funds have posted to account

Alternative Investments Best Practices

- List "NFS, LLC" as the custodian
- Mail required forms to NFP in Austin "Attn: Trading"
- Notify Trading Support of time sensitive items
- **Do not submit the forms or funds directly to the alternative investment product sponsor if the investment is meant to be held in a brokerage account.**

Other items that may cause a delay

- Missing or mismatched dollar amounts
- Asset name not completed
- No signature
- NFP Advisor Services Groupis unable to update client signed documents
  - Incomplete/inaccurate documents returned to rep
  - All changes must be initialed by client

Coming soon to an AdvisorComplete near you!

Coming July 2013…

Brokerage alternative investment purchases will be processed through AdvisorComplete!

Structured Products: New CE Reminder

You must pass the Structured Products exam through AAM every 2 years

Questions?

General Trading and Alternative Investments

800-880-0080

Options 1, 2

tradingsupport@nfp.com

Advisors Asset Management

800-880-0080

Options 1, 1

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