

Fiduciary Policies and Procedures

This manual is for the use of all representatives of The Leaders Group, Inc. (TLG)

While the manual contains many guidelines to compliance with rules and regulations, it does not purport to be all-encompassing of the various rules and regulations of the various state jurisdictions in which you may operate. Please refer to http://naic.org/index_members.htm to find your state insurance regulations and <http://www.nasaa.org/about-us/contact-us/contact-your-regulator/> for state securities regulations.

Transactions Based on Fiduciary Advice

Under the Department of Labor Conflict of Interest Fiduciary Rule, a person is a fiduciary to an IRA or plan if they offer investment advice for a fee or other direct or indirect compensation. ERISA safeguards retirement savers by imposing trust law standards of care and undivided loyalty on plan fiduciaries, and by holding fiduciaries accountable when they breach those obligations. In addition, fiduciaries to plans and IRAs are not permitted to engage in “prohibited transactions,” which pose special dangers to the security of retirement, health, and other benefit plans because of fiduciaries’ conflicts of interest with respect to the transactions. These policies are designed to identify any conflicts, disclose the conflicts, mitigate the conflicts and make sure the transactions are conducted under a Prohibited Transaction Exemption (PTE) where applicable.

Fiduciary Compliance

The Leaders Group monitors Conflicts of Interest through a Conflicts Committee, the chair of which shall be the Chief Compliance Officer, which shall identify, monitor and mitigate the conflicts of interest. The compliance department will be responsible for establishing policies and procedures to avoid prohibited transactions and satisfy the PTE conditions.

Impartial Conduct Standards

TLG and its registered representative advisers will adhere to, and comply with, Impartial Conduct Standards. As part of the Impartial Conduct, advisers will provide advice that is in the best interest of the retirement investor, without regard to their own financial or other interests.

The standards also prohibit TLG, advisers and their affiliates from receiving more than reasonable compensation within the meaning of ERISA § 408(b)(2). TLG has adopted current industry standards as reasonable compensation, but will continue to monitor compensation for reasonableness.

The Impartial Conduct Standards prohibit TLG and its advisers from making statements regarding the recommended transaction, fees and compensation, material conflicts of interest, and any other matters pertinent to the retirement investor’s investment decisions that are materially misleading at the time they are made.

TLG and Advisers providing advice should exercise special care when assets are hard to value, illiquid, complex, or particularly risky investments. TLG’s responsible for overseeing recommendations of these investments and must give special attention to the policies and procedures surrounding such investments and their oversight of Advisers’ recommendations.

Rules for Materials – All materials must avoid misleading statements or omitting necessary material facts. They also must provide a balanced description of the risks and features of the annuity contracts to be recommended. All materials must be submitted to compliance@leadersgroup.net for review and approval. No materials may be used until the adviser has received written approval.

Adviser training – All advisors must complete fiduciary training within 30 days of contracting with TLG. Training will consist of courses provided by the firm’s CE vendor and the annual compliance meeting webinar. Courses will be supplemented with additional webinars and email bulletins.

Transaction approval/Procedures for advisers – All Advisers must complete a retirement analysis, and annuity or mutual fund worksheet for each of their qualified accounts. If any of the required forms are not submitted the transaction will be rejected for the Adviser to complete the missing forms.

The retirement analysis should contain current income, assets, liabilities, risk tolerance, retirement goals and a protection analysis that includes life, long-term care and disability insurance analysis. We recommend and supply Advizr, but other planning programs may be used that contain all the requirements. Plans should be submitted as a PDF to The Leaders Group.

Annuity Policies and Procedures

Variable annuities are issued by insurance companies whose cash value benefits are based on an underlying securities portfolio, maintained in a separate account of the insurance company which is usually an open-end investment company. Equity-indexed annuities are a fixed annuity that earns interest or provides benefits that are linked to an external equity reference or an equity index. The value of any index varies from day to day and is not predictable.

Each agent must be appointed with the insurance carrier prior to soliciting an annuity. Index annuities must have commissions assigned to The Leaders Group.

The following guidelines must be followed in the sale of annuities:

CUSTOMER INFORMATION

1. When recommending an annuity, comprehensive customer information must be obtained as required on TLG Annuity Worksheet and retirement analysis.
2. Advisers must discuss all relevant facts with the customer including but not limited to: liquidity issues such as potential surrender charges and IRS penalties for early withdrawal; fees, including mortality and expense charges, administrative charges, and charges for benefit riders; as well as market risk. The agent must have a reasonable basis to believe the customer would benefit from certain features of an annuity. The Annuity Worksheet must be signed and dated by both the customer and agent.
3. Advisers also are required to make legitimate efforts to ascertain and consider various other factors when recommending the purchase or exchange of an annuity, such as age, annual income, financial situation, existing assets, investment experience, investment objectives, risk

tolerance, liquidity needs, tax status, and any other information deemed relevant in making a proper recommendation to a customer.

4. The annuity transaction should be reviewed by the Adviser to determine that the contract as a whole, including any riders or product enhancements, properly suits the customer.

PRODUCT INFORMATION

1. Advisers should have a thorough knowledge of the specifications of each annuity that is recommended, including the death benefit, fees and expenses, special features, withdrawal privileges, and tax treatment. Product-specific features may not be ignored by Advisers.
2. A current product reference guide or prospectus must be given to the customer when an annuity is recommended. Information about important factors, such as fees and expenses and the illiquidity of the product, should be discussed with the customer.
3. Annuities are generally long-term investments, and as such care should be taken when recommending a shorter duration annuity (L-share) to make sure the shorter term is suitable for the customer. Unless the client desires both the liquidity from a short-term product, and the protection from a guaranteed rider, a short-term product should not be sold with a long-term rider.

LIQUIDITY AND EARNINGS ACCRUAL

1. Lack of liquidity caused by surrender charges and penalties for early withdrawal may make an annuity an unsuitable investment for customers who have short-term investment objectives. As such, an annuity should typically be recommended only when the customer has a long-term investment objective. The rep should make sure the customer understands the effects of surrender charges on redemptions and that a withdrawal prior to age 59 ½ could result in a tax penalty.
2. No annuity surrender periods can exceed 10 years.
3. Advanced age makes a long-term investment inappropriate. Certain contract features may make an annuity unsuitable for a customer of advanced age.

INCOME, NET WORTH, AND CONTRACT SIZE

1. Because of the illiquidity of annuities, the customer should have sufficient assets or income for living expenses after the purchase of the annuity. Income, liquid net worth and age may be mitigating factors in the suitability.

INVESTMENT IN QUALIFIED ACCOUNTS

1. When the agent is recommending an annuity in a qualified account, the customer must understand that tax-deferral is provided by the retirement plan and that feature of the annuity is unnecessary. The agent should recommend an annuity only when its other benefits, such as lifetime income payments, family protection through the death benefit and guarantees support the recommendation.

2. Advisers should ensure the customer is aware of the plan minimum distribution requirements and any possible surrender charges.

ANNUITY REPLACEMENTS

1. The annuity disclosure form needs to accurately completed to explain the benefits of replacing the existing contract with a new contract. Any state specific transfer/exchange forms must also be complete.
2. No surrenders over 5% on the product being surrendered will be accepted.
3. The replacement must be suitable. Considerations include product enhancements, lower cost structures, the suitability of the new surrender period and any charges incurred therein.

BONUS FEATURES

1. Some annuities carry a bonus feature that adds a premium to the contract based on a percentage of purchase payments. Bonus annuities must be analyzed to make sure that higher fees and longer surrender periods do not outweigh the benefit of the bonus credit offered.

TAX CONSIDERATIONS

1. Advisers must recommend the customer consult a tax advisor prior to investing. Withdrawals of earnings will be taxed at the ordinary income rate rather than the lower capital gains rates applied to investments in stocks, bonds, mutual funds and other non-tax-deferred vehicles in which funds are held for more than one year. Also, death benefits do not receive a "step-up" in cost basis when the owner dies. Many other investments do provide a step-up in tax basis upon the owner's death.

GUARANTEES

1. Advisers must explain that any guarantees offered are based upon the insurance company's solvency. In the event of the insurer's insolvency, no guarantees exist.

ANTI-CONFLICT POLICIES

All conflicts of interest shall be listed, identified as a conflict of interest and how they will be mitigated. All potential conflicts of interest need to be reported to compliance@leadersgroup.net for review by the Conflicts Committee.

TLG will not use compensation and other employment incentives to the extent they are intended to or would reasonably be expected to cause advisers to make recommendations that are not in the Best Interest of the Retirement Investor. TLG will not provide incentives to other supervisors that are intended to, or would reasonably be expected to cause such entities, in turn, to incentivize advisers to make recommendations that do not meet the Best Interest standard.

Existing Conflicts of Interest:

The Firm has identified the conflicts of interest listed below, as well as how the Firm will mitigate these conflicts.

- Limited Product Type Offerings – Products offered will be limited to the products allowed based on the Advisers licensures and states which they are appropriately licensed. Products will also be limited to products that have an AM Best rating of A- or better. Not all product types are offered due to the limited products allowed under these requirements and do not cover the universe of investment products available. Recommendations will be made in the client’s best interest with regard to these limitations.
- Non-cash Compensation from Product Sponsors – Our Advisers do not use or rely upon quotas, appraisals, performance or personnel actions, bonuses, contests, special awards, differential compensation or other actions or incentives that would cause them to recommend one product over another. This would include trips, awards, bonuses or other items of value from a carrier or marketing organization.

Compensation Practices:

- Reasonable of compensation – The firm will determine, on an ongoing basis, the reasonableness of the compensation based on analysis of current market conditions and product offerings.