

MSEC, LLC

REGULATION BEST INTEREST BROKER-DEALER DISCLOSURE

MSEC, LLC (“MSEC” or our “Firm”) is registered with the U.S. Securities and Exchange Commission (the “SEC”) as a broker-dealer, and is also a member of both the Financial Industry Regulatory Authority (“FINRA”) and the Securities Investor Protection Corporation (“SIPC”). MSEC is not an investment advisory firm and cannot offer investment advisory services.

However, our financial professionals who work directly with retail customers and retirement plans and are registered representatives of MSEC (a.k.a. Mariner), are also investment adviser representatives (“IARs”) of our affiliate Mariner, LLC (“Mariner”), an investment advisory firm. On the other hand, not all investment adviser representatives of Mariner are registered representatives of MSEC. Therefore, some individual financial professionals associated with Mariner would not be able to offer broker-dealer services with MSEC. You can check your financial professional at www.brokercheck.finra.org which will allow you to search for your financial professional by name. Their respective profile will show you if your individual financial professional (broker) is also an IAR.

We are providing you this guide because you are considering engaging with a MSEC financial professional to purchase, sell, or hold a securities product, open a new account, or make certain changes to an existing account. Among other things, this Disclosure addresses the scope and terms of our relationship with you, the capacity in which we are acting, the type and scope of our services, any material limitations on our services, the fees and costs associated with your holdings, accounts, and transactions, and the conflicts of interest that exist for us and our financial professionals.

The discussions below, except as specifically noted otherwise, apply solely when our Firm and financial professionals act as your broker (and not when our affiliate Mariner acts as your investment adviser).

OUR CAPACITY, AND RELATIONSHIP, AS YOUR BROKER

All recommendations of securities transactions (and investment strategies involving securities) that are made by MSEC and your MSEC financial professional regarding your brokerage account or investments held directly with an investment sponsor (known as “direct business”) will be made in our Firm’s capacity as your broker-dealer firm, and your financial professional’s capacity as an associated person of a broker-dealer firm, respectively.

Financial professionals who are also IARs of our affiliate Mariner may also act as your investment adviser. You will know they are acting as an investment adviser because it is a distinct service you select, and you will enter into a separate agreement with Mariner to receive that service.

Recommendations of securities to a broker-dealer’s customer must generally (at a minimum) be “suitable” for the customer, in accordance with rules issued by FINRA. In addition:

Retail Customers. Under the SEC’s “Regulation Best Interest” (“Reg BI”) our Firm and financial professionals are obligated to act in a retail customer’s best interest and not put our interests ahead of yours when we recommend securities transactions, or investment strategies involving securities (including account recommendations), to you. “Retail customers” means individuals (including their legal representatives) to whom we provide investment recommendations that are used primarily for personal, family, or household purposes.

Retirement Accounts and IRAs. When our Firm and financial professionals provide investment advice to you regarding your retirement plan account or individual retirement account, we are fiduciaries within the meaning of Title I of the Employee Retirement Income Security Act (“ERISA”) and/or section 4975 of the Internal Revenue Code (the “Code”), as applicable, which are laws governing retirement accounts. The way we make money creates some conflicts with your interests, so we operate under a special rule that requires us to act in your best interest and not put our interest ahead of yours. Under this special rule’s provisions, we must:

- Meet a professional standard of care when making investment recommendations (give prudent advice);

MSEC, LLC

REGULATION BEST INTEREST BROKER-DEALER DISCLOSURE

- Never put our financial interests ahead of yours when making recommendations (give loyal advice);
- Avoid misleading statements about conflicts of interest, fees, and investments;
- Follow policies and procedures designed to ensure that we give advice that is in your best interest;
- Charge no more than is reasonable for our services; and
- Give you basic information about conflicts of interest.

For purposes of the special rule noted above, covered “plans” include 401(k), 403(b), profit sharing, pension and all other plans that are subject to ERISA, together with tax-qualified retirement plans (even if not subject to ERISA) such as Solo 401(k) and “Keogh” plans.

“IRAs” subject to the special rule include both traditional and Roth IRAs, individual retirement annuities, health savings accounts, Archer medical savings accounts and Coverdell education savings accounts.

TYPE AND SCOPE OF OUR BROKERAGE SERVICES

MSEC offers a limited selection of brokerage services to retail customers (and retirement plans), including buying and selling securities such as mutual funds, 529 Savings Plans and variable insurance products directly with custodians (i.e., not custodied with MSEC), making recommendations and opening non-discretionary brokerage accounts. Additionally, MSEC executes fixed income securities transactions, but not with respect to retail customers (or retirement plans for which we make investment recommendations). We do not provide account monitoring services or require account minimums. Where MSEC acts as your broker, you make the ultimate decision regarding the purchase or sale of investments. If you prefer on-going monitoring of your account or investments, you should speak with your MSEC financial professional about whether an advisory service relationship is more appropriate for you.

We offer retail customers (and retirement plans) a limited number of brokerage account types, which are typically “direct-held” accounts (i.e., by and with a mutual fund family, or a state’s 529 Savings Plan), including individual retirement accounts (IRAs), 401(k) accounts, taxable brokerage accounts, and 529 Savings Plans.

Our General Investment Philosophy and Approach. Our belief is that investing should be personalized, and we do not believe in a “one size fits all” approach. When your MSEC financial professional recommends securities, strategies involving securities, or an account type, to you, he or she will consider the potential risks, rewards, reasonably available alternatives and costs in light of your investment profile. Our target retail customers are typically also investment advisory clients of Mariner.

We do not have any minimum account requirements for our brokerage accounts, but some of the investments you can purchase through us have minimum investment requirements. More information about these minimum investment requirements is available in the investment’s offering document or prospectus.

MATERIAL FEES AND COSTS

If you engage MSEC to provide you with brokerage services, you will pay certain fees and costs.

You will pay – directly or indirectly – certain fees and costs that are particular to certain investments and investment transactions. Below we summarize the material fees and costs associated with the majority of investments and insurance products that MSEC and our financial professionals are able to recommend and sell to you. If we recommend an investment to you that is not addressed below, you will receive information about material fees and costs at the time or before the recommendation is made. Further, as required we will provide additional, more detailed information with respect to the fees and costs associated with any specific investment or insurance product we recommend to you, which is

MSEC, LLC

REGULATION BEST INTEREST BROKER-DEALER DISCLOSURE

typically provided in the prospectus or other offering or policy documents for the relevant investment or insurance product.

Mutual Funds. Mutual fund shares come in different classes, each with different fees and fee structures. The specific fee and fee structure of each share class, including the amount charged and when it is collected, vary depending on the particular mutual fund and are described in the fund's prospectus. Not all share classes are available to all account types and/or investment programs. The principal differences among the classes are the fees and expenses charged by the mutual fund. Fees and expenses in a mutual fund reduce the net asset value ("NAV") of the fund and its investment return.

The primary sources of fees and expenses associated with mutual fund investments, and which are paid as compensation to MSEC, include:

- **Up-Front Sales Charges (Front-End Loads)** – In many cases you will pay an up-front sales charge upon the purchase of the fund, as described in the prospectus. Many mutual funds allow for a reduction or waiver of the up-front sales charge based upon, among other things, the amount of your total investments in the particular mutual fund family, investor type, and the type of account in which the assets are invested. These sales charges usually range from 0% to 6% and reduce the amount of your principal investment.
- **Back-End Sales Charges (Back-End Loads)** – These are sales charges that are applied by the applicable mutual fund upon the sale of a mutual fund share within a specified number of years (the exact number of years varies by fund, as explained in its prospectus). These sales charges are also referred to as Contingent Deferred Sales Charges or "CDSCs." These charges often range from 1% to 4% but can be reduced or eliminated based on how long the shares are held as described in the prospectus.
- **12b-1 Fees** – Many mutual funds pay a 12b-1 fee (or "trailing commission") to MSEC directly from the fund's assets on a monthly or quarterly basis. Like other fees and expenses in the mutual fund, the payment of 12b-1 fees reduces the investment return. The amount of the 12b-1 fees paid varies among funds and share classes but is disclosed in the fund prospectus.

Typical mutual fund share classes often have the following characteristics:

- **Class A** – Class A shares typically impose front-end sales charges, but lower 12b-1 fees (often between 0.15%-.50%).
- **Class C** – Class C shares do not generally impose front-end sales charges, and only small, short-term back-end sales charges (for example, 1% if you sell your shares within one year), but they tend to have higher ongoing 12b-1 fees (often between 0.75% and 1.00%). Some Class C shares convert to Class A shares over time (e.g., 6-10 years), but many Class C shares do not convert.

However, it should be noted that mutual fund share classes differ very significantly, and therefore it is crucial that you review a specific fund's prospectus before investing.

In addition, when you invest in a mutual fund, you will pay (indirectly, through deductions from your investment) your *pro rata* share of the investment management fees, auditor fees and other ongoing expenses incurred by the fund. Expressed as an annual percentage, the total operating expenses of a mutual fund are referred to as the fund's expense ratio. Fund expense ratios differ significantly; they are typically higher for actively-managed funds than passive (index) funds. More detail about the fees and costs associated with a mutual fund (and other important information) is provided in its prospectus. We strongly encourage you to review these documents carefully before any purchase.

529 Savings Plans. When you make contributions to a state's 529 Savings Plan, your contributions are invested among various underlying investment options from which you choose. Typically, 529 Savings Plans have share class structures that mimic those of mutual funds, and thus pay us sales charges and other commissions that largely mirror those of mutual funds – we recommend that you review the discussion of *Mutual Funds* above. For example, as a percentage of the

MSEC, LLC

REGULATION BEST INTEREST BROKER-DEALER DISCLOSURE

amount contributed (similar to mutual funds), many 529 Savings Plans impose up-front sales charges that typically range between 0% to 6%.

In addition to the compensation we receive for selling 529 Savings Plans, you will pay additional fees and costs such as program management fees and maintenance fees, which are deducted from your underlying investment options. More detail about the sales charges and other fees and costs associated with a state's 529 Plan (and other important information) is provided in its offering document, which we strongly encourage you to carefully review before making contributions.

Variable Annuity/Insurance Products. If your MSEC financial professional is licensed to sell annuities and other insurance products, he or she can recommend that you purchase a variable annuity or a variable life insurance policy. Variable annuities and life insurance policies are regulated by the SEC as securities (in addition to state insurance regulation). The value of the contract is based on the investment options, such as sub-accounts or directly into the general account of the insurance company that manages the investment portfolios that you selected. If you buy a variable annuity or life insurance policy through MSEC, we will receive an insurance commission from the issuing insurance company. The commission typically ranges between 1% and 7%. In many cases, the insurer will also pay us trailing commissions for ongoing services and maintenance as long as you continue to hold the annuity or policy, which will not typically exceed 1.5% annually. Like mutual funds and 529 Savings Plans, many variable annuities offer different share classes. Typically, some share classes will pay us higher up-front commissions but lower trails, while others will pay lower up-front commissions but higher trails.

With any purchase of a variable annuity or insurance policy, the single most significant cost you will incur is the premium(s) you will pay to the insurance company for coverage. You will also pay various fees, some examples of which are described below, that are deducted from the contract value by the insurance company. The specific amounts of all fees are disclosed in the contract which you receive directly from the insurance company, but they may include, without limitation:

- Mortality Risk and Expense (M&E) – This is an annual charge that compensates the insurance company for insurance risks it assumes under the contract. The charge often ranges from 0.50% and 1.75%, but can vary further.
- Administrative and Annual Maintenance Fees – This is an annual charge that covers recordkeeping and other administrative fee expenses. The administrative fee is a percentage of the account value and often ranges from 0.00% and 0.15%, but can vary further. The annual maintenance fee is a nominal flat fee, and is typically waived for large contract values (e.g., over \$50,000 or \$100,000).
- Investment Management Fees – These fees are paid to the firms that manage the investment portfolios held within the contract, who are often affiliates of the insurance company. These will vary depending on which investment portfolios you choose.
- Fees for Optional Riders – Optional riders are provisions that can be added to an annuity contract to increase or limit benefits the contract otherwise provides. You will be charged additional fees if you select optional contract features at the time of purchase.
- Surrender Charge or Contingent Deferred Sales Charge (“CDSC”) – If you withdraw money from a variable product within a certain period after purchase (often between 3 to 7 years), the insurance company usually will assess a “surrender charge” which is a type of sales charge.

Variable annuities and life insurance policies are complex products, often with intricate risk, fee and cost structures. More detail about the fees and costs associated with a particular variable annuity or life insurance policy (along with other important information) is provided in its prospectus or other policy documents. We strongly encourage you to review these documents carefully before any purchase.

MSEC, LLC

REGULATION BEST INTEREST BROKER-DEALER DISCLOSURE

MATERIAL LIMITATIONS ON OUR SERVICES AND RECOMMENDATIONS

There are material limitations on the services, securities and strategies involving securities that our Firm, and in some cases certain of our financial professionals, can offer to you:

Investment Limitations. MSEC only offers limited investments and services to retail customers, and retirement plans for which we recommend investments. The investments we make available and recommend to such customers are generally limited to mutual funds, 529 Savings Plans and variable annuities/variable life insurance held directly (i.e., not custodied with MSEC). We cannot sell mutual funds or annuities (or other insurance products) except where we have selling or distribution agreements with the issuers. If you need access to broader types of investments and strategies, you should consider whether an investment advisory account (with Mariner or another investment advisory firm), or a brokerage account with a brokerage firm that offers more investment options, would better serve your needs.

Licensing Limitations – Individual Financial Professionals. Our individual financial professionals who are registered representatives of MSEC and recommend securities directly to retail customers and retirement plans are also investment adviser representatives of Mariner; however, not all investment adviser representatives of Mariner are registered representatives of MSEC. This means that some individual financial professionals associated with Mariner would not be able to offer brokerage services to you. Also, some of our individual financial professionals are not licensed to recommend and sell certain products. For example, if your financial professional is not licensed to recommend and sell annuities and other insurance products, he or she will be unable to do so for you. If these, or any other limitation, apply to your MSEC financial professional, he or she will disclose this to you directly. In addition, you can research your financial professional's experience and licenses on FINRA's BrokerCheck website at brokercheck.finra.org.

No Investment Monitoring. When we act as your broker, our Firm and our financial professionals do not monitor your brokerage account investments after effecting a securities transaction for you, including those investments our financial professional recommends. If you wish to receive regular monitoring of your investments, you should consider whether an investment advisory account (with Mariner or another investment advisory firm) would better serve your needs.

Not a Discount Broker. MSEC is not a discount brokerage firm, and our services for retail customers are typically more expensive than those of discount brokers. If you only wish to trade securities based on your own research, and you do not wish to receive recommendations, an online or other discount broker would likely be a better overall choice for you than opening a brokerage account with MSEC.

No Discretionary (Investment Management) Services. When we act as your broker, our Firm and our financial professionals cannot make investment decisions for you, and we cannot manage your brokerage account on a discretionary basis. This means that we cannot generally buy or sell investments for your account without first obtaining your authorization. While we can recommend certain investments to you, you are responsible for making the ultimate decision whether to purchase or sell investments. If you are uncomfortable making investment decisions even with recommendations from a financial professional, you should consider whether an investment advisory account (with Mariner or another investment advisory firm) would better serve your needs.

MSEC, LLC

REGULATION BEST INTEREST BROKER-DEALER DISCLOSURE

MATERIAL CONFLICTS OF INTEREST ASSOCIATED WITH OUR RECOMMENDATIONS

Brokerage Services (MSEC) vs. Advisory Services (Mariner). In most cases, the total compensation that our Firm receives (consisting primarily of commissions and commission-equivalents) for providing brokerage services is less than our affiliate Mariner receives (consisting primarily of advisory fees) for providing investment advisory services. Also, the rate of fees you would pay in an investment advisory account to Mariner does not decrease even where the level of investment trading activity in your advisory account is low. Further, while some of our financial professionals receive only a salary, other of our investment professionals who are licensed both as registered representatives of MSEC and investment adviser representatives of Mariner are compensated based on the total commissions, advisory fees and certain other revenues they generate for MSEC and Mariner together (See *Variable Compensation To Our Financial Professionals* below).

Therefore, both our Firm (considered together with our affiliate Mariner) and our financial professionals have a financial incentive to encourage you to choose an advisory account with Mariner over a brokerage account with MSEC. If we recommend an account type to you, our financial professionals are required to consider the level of anticipated trading activity, your financial needs and certain other factors, before doing so.

Sales Commissions, Including Trail Commissions. Our Firm receives a sales commission each time we sell a mutual fund, 529 Savings Plan, or annuity or other insurance product, and often receives trailing commissions as well so long as the product continues to be held. The higher the amount of your investments, and the more frequently you buy and sell investments, the more sales commissions we will receive. While some of our investment professionals receive only a salary, others are compensated based on the total commissions they generate (See *Variable Compensation To Our Financial Professionals* below). Thus, our Firm, and in many cases our financial professionals, have financial incentives to recommend that you invest in products that pay us higher commissions, that you make larger investments, and that you buy and sell investments frequently.

Variable Compensation To Our Financial Professionals. Some of our financial professionals who work directly with retail customers and retirement plans receive only a salary, or a salary and a bonus based primarily on overall firm performance. This is typical of our wealth advisors who are not Senior Wealth Advisors/Senior Wealth Consultants. Those wealth advisors who receive a bonus have an incentive to maximize the revenues to the Firm and our affiliates, even if they do not receive a share of those revenues directly, because they will generally receive larger bonuses if the Firm and our affiliates make more money.

- In addition to salary and bonus, some of our individual financial professionals are entitled to receive variable compensation equal to percentage shares of the (i) commissions and commission-equivalents they generate for MSEC, (ii) advisory fees they generate for Mariner, and (iii) commissions they generate through annuity and insurance sales. This is more typical for our Senior Wealth Advisors/Senior Wealth Consultants. While there are variances from individual to individual, certain Senior Wealth Advisors/Senior Wealth Consultants would be entitled to receive variable compensation of up to 25% of the related “net revenues” generated from advisory fees and/or commission (annuity/insurance) sales associated with clients serviced by the Senior Wealth Advisor/Senior Wealth Consultant.
- If a financial professional, including Senior Wealth Advisors, recently became associated with MSEC and our affiliate, Mariner Wealth, after working for another financial services firm, they may for a period of time receive incentives based on investment advisory revenue in lieu of variable compensation. The financial professional will have an incentive to recommend investment advisory services over broker-dealer commissionable investments.

Therefore, many of our financial professionals have additional financial incentives to recommend investments that will generate higher amounts of commissions and fees for the Firm and our affiliates, over those that generate lower commissions and fees. Our compensation incentives are intended to help mitigate the conflict that exists between different

MSEC, LLC

REGULATION BEST INTEREST BROKER-DEALER DISCLOSURE

business lines, and we do not generally employ “increasing” commission grid rates (i.e., that entitle financial professionals to receive higher percentages of higher revenues as their revenues increase, which can magnify this type of conflict).

Firm Profits Interests. Some of our individual financial professionals have been granted a profits interest in our parent company. Because such individuals share in our Firm’s profits, they have an additional financial incentive to increase those profits by recommending that you increase your investments, purchase investments that pay us higher fees and commissions, and trade frequently. Our individual financial professionals who have been granted a profits interest, and who recommend investments to retail customers and retirement plans, are typically Senior Wealth Advisors.

Rollovers. Regardless of the investments and services you select, MSEC and your MSEC financial professional will make more commissions and other revenues if you roll over assets from a retirement plan or IRA for which we do not provide services, to a retirement plan or IRA for which we do provide services. Therefore, both our Firm and our financial professionals have a financial incentive to recommend retirement plan and/or IRA rollovers to retirement plans and IRAs serviced by us.

Transfers; Additional Assets. Similar to rollovers, our Firm and your financial professional will make more commissions and other revenues if you transfer assets from an existing investment account with another financial institution to, or otherwise add funds to, a brokerage account with MSEC. Because the investments we recommend for retail customers (and retirement plans) are typically limited to directly held products (e.g., assets held by mutual fund families, 529 Plans, and insurance product issuers), the same would be true if you change the “broker-of-record” from a third-party broker to us, although in these cases there is no true “transfer” of assets. For example, this could occur if your individual financial professional recently left another firm and joined MSEC. Both our Firm and our financial professionals have a financial incentive to recommend transfers of account assets, and the addition of assets, to accounts and relationships serviced by us.

Share Classes. Many of the products we offer and recommend to clients feature share class structures, including mutual funds, 529 Savings Plans and variable annuities. Typically, some share classes will pay us higher up-front sales charges and similar payments but lower recurring payments (such as 12b-1 fees or “trailing commissions”), while others will pay us less up-front but more on a recurring basis. For this reason, some share classes are expected to be less expensive for long-term investors, and others are expected to be less expensive for short-term investors. In most cases, our Firm and our financial professionals will receive more compensation if you choose a share class that is more costly to you. However, we are required to consider your expected investment time horizon before recommending a particular share class to you. You should also understand that many mutual funds offer advisory or institutional share classes that are less expensive than the share classes available to you through a brokerage account with MSEC, which could be available to you within a fee-based investment advisory account. Also, many mutual funds offer less expensive share classes that are available only to retirement plan investors, which will generally not be available to you within a brokerage account with MSEC unless you are investing retirement plan assets.

Discount Features. Certain mutual funds and other products offer discounts that will reduce the sales commissions we receive as a Firm, and thus, the compensation our individual financial professionals receive. For example, some mutual fund families offer sales charge discounts at certain “break points” based on the total dollar amount of your investments, with respect to certain “rights of accumulation,” or if you sign a letter of intent (an “LOI”) to invest a certain amount in their funds. Since they reduce Firm revenues, and thus the compensation our individual financial professionals receive, both our Firm and our financial professionals have a financial incentive not to encourage you to take advantage of discounts. Under applicable industry rules, we are prohibited from making certain recommendations or omitting information in a way that is designed to prevent customers from taking advantage of discount features.

Gifts and Gratuities to Our Financial Professionals. In some cases, mutual fund families, insurance companies or other parties provide our financial professionals with a small gift or token worth less than \$100, or a complimentary meal, ticket to a sporting or other event, or similar entertainment item. Entertainment costs are typically considered reasonable (and

MSEC, LLC

REGULATION BEST INTEREST BROKER-DEALER DISCLOSURE

thus permitted) if both the host and guest attend, and the events are not so frequent or extensive that they raise questions of impropriety. These items are not tied to specific product sales or customers and must be reported to our Firm in accordance with industry regulations. Items found to be worth more than \$100, or entertainment costs found not to be reasonable, may be required to be returned or reimbursed. These items create a conflict of interest to the extent they cause our financial professionals to focus their recommendations to clients on these providers' products, over other competing products that are available in the marketplace.

Education, Training, Non-Cash Compensation and Sponsorships. Certain product companies work with our financial advisors to promote their products. They may pay for training and education events or due diligence meetings and may reimburse expenses. For financial professionals, these events may be held at off-site locations, and the travel, meals and accommodations may be paid for by the product company.

The Firm's parent, Mariner Wealth Advisors, LLC, may conduct events on a periodic basis such as an annual conference. The Firm's parent permits third parties to sponsor these and other events at various levels, including those who are associated with investments MSEC offers. Although the amount of compensation received for this sponsorship can vary based on the size of the event, the sponsorship level purchased, and other characteristics, this compensation is not MSEC transaction based or otherwise contingent on any of the investments MSEC sells. Although MSEC does not receive any of the sponsorship fees, these relationships may allow the third parties to have greater access to communicate, market to and interact with our advisors than investment companies who do not provide sponsorship. The level of access is dependent on the amount of sponsorship which may range from \$20,000 to \$300,000.

Outside Business Activities of Our Financial Professionals. Some of our individual financial professionals engage in outside business activities for compensation. As a result, they have a financial incentive to spend time on those outside activities, rather than on providing services to our brokerage customers. Our financial professionals are required to disclose any outside business activities to the Firm, and to receive pre-approval from the Firm, before engaging in them. You can research outside business activities for which your financial professional receives compensation at brokercheck.finra.org.