

Regulation Best Interest Disclosure

This guide summarizes important information concerning the scope and terms of the brokerage services we offer and details the material conflicts of interest that arise through our delivery of brokerage services to you. We encourage you to review this information carefully, along with any applicable account agreement(s) and disclosure documentation you may receive from us.

San Blas Securities LLC (herein referred to as “San Blas Securities”, “Us”, “Our”, “We”) is a broker-dealer registered with the United States Securities and Exchange Commission (SEC) and is a member of the Financial Industry Regulatory Authority (FINRA) and the Securities Investor Protection Corporation (SIPC). San Blas Securities maintains securities accounts through a fully disclosed clearing relationship with RBC Correspondent Services (herein referred to as “clearing firm” or “RBC”). San Blas Securities is affiliated with San Blas Advisory, Inc., dba ES Advisory Group, and SB Advisory, LLC, state registered investment adviser firms. As a broker-dealer, San Blas Securities transacts business in various types of securities, including stocks, bonds, mutual funds, unit investment trusts (UITs), options, exchange-traded funds (ETFs), life insurance, annuities, and other various investment products.

San Blas Securities maintains a network of individuals, referred to as “Financial Professionals”, who offer brokerage services, investment advisory services, or both, depending on their licenses. Some of San Blas Securities’ Financial Professionals are investment adviser representatives (IARs) of San Blas Advisory, Inc., dba ES Advisory Group, an unaffiliated registered investment adviser. San Blas Securities sometimes refers to these specific Financial Professionals as “financial advisors” or “advisors.” San Blas Securities’ Financial Professionals are primarily independent contractors though there are some who are employees.

Although most Financial Professionals offer both brokerage and investment advisory services, some only offer brokerage services and others only offer investment advisory services. When you are discussing services with a Financial Professional, you should ask what capacity the Financial Professional is acting or will be acting – as a broker-dealer registered representative and/or an “IAR” – when providing services to you. This disclosure discusses important information regarding Financial Professionals who act as registered representatives of San Blas Securities’ broker-dealer. Like all financial services providers, San Blas Securities and its Financial Professionals have conflicts of interest. San Blas Securities and our Financial Professionals are compensated directly by customers and indirectly from the investments made by customers. When customers pay us, we typically get paid an upfront commission or sales load at the time of the transaction and in some cases a deferred sales charge. If we are paid an upfront commission, it means that we are paid more the more transactions a customer makes. When we are paid indirectly from the investments made by customers, we receive ongoing compensation, typically called a “trail” payment, for as long as a customer holds an investment. In addition, we receive compensation from the sponsors of some of the investment products that customers purchase through us. The amount we receive varies depending on the particular type of investment a customer makes. The compensation described in this disclosure represents the maximum gain or profit we receive on an investment, before subtraction of our expenses.

Please also note that not all of the conflicts described in this disclosure apply to a particular Financial Professional, his/her services or all the products we sell. The types and amounts of compensation we receive change over time. You should ask your Financial Professional if you have any questions about compensation, costs, fees, or conflicts of interest.

Please carefully review and consider the information in each section below.

Brokerage Services

San Blas Securities is an “Introducing Broker-Dealer”, meaning we do not hold custody of your funds and securities. Instead we have an agreement with a clearing firm who safeguards your assets and executes trades on our behalf. When you establish a brokerage account through us, at our clearing firm, RBC Correspondent Services (“RBC”), you can buy, sell and hold investments within your account. The primary service we provide through RBC is our trading capability. We execute purchases and sales on your behalf, and as directed by you, in which we earn a profit. The capacity in which we act is disclosed on your trade confirmation and on your New Account Form(s). In our agreement with RBC they not only carry your account, but also provide certain back office functions. We and the clearing firm share responsibilities with respect to your account.

BROKERAGE ACCOUNT TYPES

We offer a variety of different brokerage account types including:

- individual and joint accounts,
- estate and trust accounts,
- partnership accounts,
- individual retirement accounts, and
- other types of retirement accounts

MARGIN BROKERAGE ACCOUNTS

We offer you the ability to purchase securities on credit, also known as “margin”. When customers purchase securities on margin, we extend a line of credit to the customer and charge interest on the margin balance. While many securities are eligible to be used as collateral for a margin loan, some assets are not available for margin collateral purposes. We have a financial incentive to encourage you to borrow on margin because we earn compensation in the form of interest, transaction charges and other fees on investments made with borrowed amounts. This financial incentive creates a conflict of interest as San Blas Securities and our Financial Professionals benefit from your decision to borrow and incur the various fees and interest described above. Given that a margin-enabled brokerage account has specific eligibility requirements, unique costs, and governing regulatory requirements, our default brokerage option is our cash brokerage account. You must execute a separate margin agreement before engaging in margin brokerage activity. Included with your margin agreement is a copy of the Margin Disclosure Statement. This statement contains important information you should understand and consider before establishing a margin brokerage relationship with us.

For more information on our margin brokerage services, contact your Financial Professional or refer to the RBC Express Credit Account Agreement and Application, as well as the RBC Express Credit Disclosure Statement. You can also visit RBC’s website: <http://www.rbccorrespondentservices.com/>

INCIDENTAL BROKERAGE SERVICES, RECOMMENDATIONS & ACCOUNT MONITORING

Within your brokerage account, we also provide other incidental services such as recommendations to buy, sell, or hold assets. When we make a securities recommendation, investment strategy recommendation or recommendation to rollover assets from your Qualified Retirement Plan (QRP) to an Individual Retirement Account (IRA), the recommendation is made in our capacity as a broker-dealer unless otherwise stated at the time of the recommendation. Any such statement will be made orally to you. Moreover, when we act in a brokerage capacity, we do not agree to enter into a fiduciary relationship with you.

It is important for you to understand that when our Financial Professionals make a brokerage recommendation to you, we are obligated to ensure the recommendation is in your best interest, considering reasonably available alternatives, and based on your stated investment objective, risk tolerance, liquidity needs, time horizon, financial needs, tax status, and other financial information you provide us. You may accept or reject any recommendation. It is also your responsibility to monitor the investments in your brokerage account, and we encourage you to do so regularly. We do not commit to provide on-going monitoring of your brokerage account. If you prefer on-going monitoring of your account or investments, you should speak with a Financial Professional about whether an advisory services relationship is more appropriate for you.

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Please also consider that from time to time we may provide you with additional information and resources to assist you with managing your brokerage account. This may include but is not limited to educational resources, sales and marketing materials, performance reports, asset allocation guidance, and/or periodic brokerage account reviews. When we offer these services and information, we do so as a courtesy to you. These activities are not designed to monitor specific investment holdings in your brokerage account, they do not contain specific investment recommendations about investment holdings, and you should not consider them a recommendation to trade or hold any particular securities in your brokerage account. Upon your request, we will review such information and reports with you and may provide you with investment recommendations, but we are not under a specific obligation to do so.

CASH SWEEP FEATURES

Our brokerage services include a Cash Sweep Program feature. This program permits you to earn a return on uninvested cash balances in your brokerage account by allowing cash balances to be automatically “swept” into a “Cash Sweep Vehicle,” until such balances are otherwise required to satisfy obligations arising in your account. These Cash Sweep Vehicles include interest-bearing deposit accounts, and if permissible, money market mutual funds or such other sweep arrangements made available to you.

For additional information concerning the Cash Sweep Program, please refer to your account agreement(s). More information about the Cash Sweep Program can also be found in the Cash Sweep Program Disclosure Statement available on [RBC's website](#). Please review that Disclosure Statement carefully.

ACCOUNT MINIMUMS & ACTIVITY REQUIREMENTS

There is no minimum initial account balance required to open a brokerage account with us. However, if you either fail to fund your account or do not return account opening documents as required, your account will be closed. In addition, some types of brokerage accounts have minimum account activity requirements and/or minimum on-going balance requirements that must be maintained, or your brokerage account will be closed. These requirements are detailed in the account agreement(s) you receive when you open your brokerage account.

You should also understand that our Financial Professionals may establish their own minimum account balance requirements for the brokerage accounts they service. For example, a dedicated Financial Professional may choose to service only those brokerage account clients who satisfy account-specific or total household asset conditions. Minimum asset requirements are disclosed to you orally by your Financial Professional.

SUBSCRIPTION-WAY ACCOUNTS

San Blas Securities and our Financial Professionals receive compensation from investment product sponsors on the investments you make in securities such as direct mutual funds, annuities, and alternative investments. Some of this compensation is commonly known as “trail compensation” in which we and our Financial Professionals receive ongoing compensation from certain investment products under a distribution or servicing agreement with the product sponsor. The more assets you invest in the product, the more we will be paid in these fees, therefore we have an incentive to encourage you to increase your account size. Furthermore, the volume of trails received varies by product type and sponsor, therefore creating an incentive to recommend a product that pays a higher trail over a lower trail.

For more information about trail compensation received with respect to a particular investment, please refer to the prospectus or offering paperwork. Below is a general disclosure of the trail compensation ranges charged to you and received by San Blas Securities and your Financial Professional.

“Subscription-way” is a common procedure whereby the check used to purchase securities is made payable to the issuer (or other third party) and is forwarded by the selling broker-dealer to the issuer or the issuer’s agent.

- **Mutual Funds:** The ongoing payment depends on the class of shares but may range between 0.05% and 6% of assets on a quarterly or monthly basis.
- **Annuities:** The ongoing payment depends upon the agreement between San Blas Securities and the Issuer. The maximum trail payment for annuities is generally 7%.

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Commissions, Fees and Other Types of Sales Compensation

San Blas Securities receives upfront transaction-based fees, also known as commissions, when it executes transactions that result in the purchase or sale of a security. A commission, which also may be called a sales load, sales charge, mark up or placement fee, is typically paid at the time of the sale and can reduce the amount available to invest or can be charged directly against an investment. Commissions are often based on the amount of assets invested. We receive the sales charge or commission and shares it with your Financial Professional. In some cases, a portion of the sales charge or commission is retained by the investment's sponsor. Commissions vary from product to product, which creates an incentive to sell a higher commission security rather than a lower commission security. The maximum and typical commissions for common investment products are listed below. For more information about other commissions that apply to a particular transaction, please refer to the applicable investment's prospectus or other offering document.

The sections below describe the compensation that we receive in connection with various investments that may be available to you. In many cases, the descriptions that follow refer to a prospectus or offering documents. Below is a disclosure of the commission charged to you and received by us and your Financial Professional:

Equities and Other Exchange Traded Securities

The maximum commission charged by San Blas Securities in an agency capacity on an exchange traded security transaction, such as an equity, option or ETF, is 3.75% of the transaction amount. The commission amount decreases as the size of the transaction amount increases according to a schedule. In addition, your Financial Professional can decide to discount the commission amount to a minimum of \$0 per transaction.

- **Mutual Funds:** The maximum commission or sales charge permitted under applicable rules is 8.5%, although the maximum is typically 5.5%.
- **Annuities:** The maximum upfront commission paid for new sales of annuities is typically 7%, but may vary depending on the time purchased, and type of annuity, such as fixed, fixed index, traditional and variable annuities.

ACCOUNT & SERVICE FEES

You will pay fees for various operational services provided to you through your brokerage account. These fees are set at least annually and communicated to you through information included in your account statement and other notifications. These fees do not apply to all account types and may be waived under certain conditions. You should understand that based on the brokerage service model you choose, the same or similar products, accounts and services may vary in the fees and costs charged to you.

COMPENSATION FOR FINANCIAL PROFESSIONALS

Financial Professionals are compensated in a variety of ways based on the percentage of revenue generated from sales of products and services to clients, including brokerage account activity. This compensation varies by the product or service associated with a brokerage recommendation. In addition to upfront-transaction based compensation, some products feature on-going residual or "trail" payments. Thus Financial Professionals are incentivized to recommend products that have higher fees as well as those with on-going payments. San Blas Securities generally compensates Financial Professionals pursuant to an independent contractor agreement, and not as employees. However, some Financial Professionals are employees of San Blas Securities. Described below are the compensation and other benefits that independent contractor Financial Professionals receive from San Blas Securities:

Cash Compensation

San Blas Securities typically pays a Financial Professional a percentage of the revenue he/she generates from the sale of products and services. The percentage received can vary (typically between 50% to 90%) depending on his or her agreements with us and the investment product or service recommended, and can be more or less than what he/she would receive at another brokerage firm. The payments can include a bonus that is based on the amount of assets serviced or revenue generated by the Financial Professional. When compensation is based on the level of production or assets, the Financial Professional has a financial incentive to meet those production or asset levels.

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Other Benefits

Financial Professionals are eligible to receive other benefits based on the revenue he/she generates from sales of products and services. These benefits present a conflict of interest because the Financial Professional has an incentive to remain a registered representative of San Blas Securities in order to maintain these benefits. These benefits include eligibility for practice management support and enhanced service support levels that confer a variety of benefits, conferences (e.g., for education, networking, training, and personal and professional development), and other non-cash compensation. Such benefits also include equity awards from San Blas Securities, free or reduced-cost marketing materials, reimbursement or credits of fees that Financial Professionals pay to San Blas Securities for items such as administrative services or technology, and payments that can be in the form of repayable or forgivable loans (e.g., for retention purposes or to assist a Financial Professional grow his/her securities practice). If San Blas Securities makes a loan to a new or existing Financial Professional, there is also a conflict of interest because San Blas Securities' interest in collecting on the loan affects its ability to objectively supervise the Financial Professional.

Fees Charged to Financial Professionals

San Blas Securities charges Financial Professionals various fees under its independent contractor agreement for, among other things, trade execution, administrative services, insurance, certain outside business activity related supervision, technology and licensing. Depending on the situation, these fees make it more or less profitable for the Financial Professional to offer and recommend certain services or products over others. In certain cases, these fees are reduced based on the Financial Professional's overall business production or the amount of assets serviced by the Financial Professional, which gives the Financial Professional an incentive to recommend that you invest more in your account or engage in more frequent transactions. Transaction fees charged to your Financial Professional can also vary depending on the specific security that the Financial Professional recommends.

Recruitment Compensation and Operational Assistance

If a Financial Professional recently became associated with San Blas Securities after working with another financial services firm, it is possible he/she received recruitment compensation from us in connection with the transition. In many cases, this transition assistance includes payments from San Blas Securities that are commonly intended to assist a Financial Professional with costs associated with the transition; however, San Blas Securities does not verify that any payments made are actually used for transition costs. These payments can be in the form of repayable or forgivable loans, and are subject to favorable interest rate terms, as compared to other lenders. In the case of forgivable loans, the loans are generally subject to repayment if the Financial Professional leaves San Blas Securities before a certain period of time or other conditions are not met.

The amount of recruitment compensation is often significant in relation to the overall revenue earned or compensation received by the Financial Professional at his or her prior firm. Such payments are generally based on the size of the Financial Professional's business established at his/her prior firm. The receipt of this compensation creates a conflict of interest in that the Financial Professional has a financial incentive to recommend that a customer open and maintain an account with San Blas Securities for advisory, brokerage and/or custody services, and to recommend switching investment products or services where a customer's current investment options are not available through San Blas Securities, in order to receive the this type of benefit or payment.

Financial Professional's Outside Business Activities

Financial Professionals are permitted to engage in certain pre-approved business activities other than the provision of brokerage and advisory services through San Blas Securities, and in certain cases, a Financial Professional receives more compensation, benefits and non-cash compensation through the outside business than they receive from San Blas Securities. Some Financial Professionals are accountants, real estate agents, insurance agents, tax preparers, or lawyers, and some Financial Professionals refer customers to other service providers and receive referral fees. If you engage with a Financial Professional for services separate from services offered by San Blas Securities, you may wish to discuss with him/her any questions you have about the compensation he/she receives from the engagement. Additional information about your Financial Professionals outside business activities is available on FINRA's website at <http://brokercheck.finra.org>.

Compensation for Other Services

San Blas Securities and our Financial Professionals can offer various types of advisory and brokerage programs, platforms and services, and earn differing types and amounts of compensation depending on the type of service, program or platform in which you participate. This variation in compensation can incentivize a Financial Professional to recommend services, programs or platforms that generate more compensation for San Blas Securities and the Financial Professional than others. For example, if you

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expect to trade securities frequently in your account, a brokerage account in which you pay a commission for each transaction may generate more compensation for your Financial Professional than an advisory account that generates compensation in the form of investment advisory fees.

Customer Referrals, Conflicts of Interest & Other Compensation

Conflicts of interest exist when we provide brokerage services to you. A conflict of interest is a situation in which we engage in a transaction or activity where our interest is materially averse to your interest. The mere presence of a conflict of interest does not imply that harm to your interests will occur, but it is important that we acknowledge the presence of conflicts. Moreover, our regulatory obligations require that we establish, maintain, and enforce written policies and procedures reasonably designed to address conflicts of interest associated with our recommendations to you.

Our conflicts of interest are typically the result of compensation structures and other financial arrangements between us, our Financial Professionals, our clients and third parties. We offer a broad range of investment services and products and we receive various forms of compensation from our clients, non-affiliated product providers and money managers, and other third parties as described above. Securities rules allow for us, our Financial Professionals, and our affiliates to earn compensation when we provide brokerage services to you. However, the compensation that we and our Financial Professionals receive from you varies based upon the product or service you purchase, which creates a financial incentive to recommend investment products and services that generate greater compensation to us.

We are committed to taking appropriate steps to identify, mitigate and avoid conflicts of interest to ensure we act in your best interest when providing brokerage recommendations to you. Below you will find additional information related to our conflicts of interest. This information is not intended to be an all-inclusive list of our conflicts, but generally describes those conflicts that are material to your brokerage relationship. In addition to this disclosure, conflicts of interest are disclosed to you in your account agreement(s) and disclosure documents, our product guides and other information we make available to you.

Markups and Markdowns for Principal Transactions

When you buy or sell fixed income securities in a brokerage account, and in accordance with industry regulations, we typically impose a markup (increase) or markdown (decrease) in the price of transactions we execute on a principal basis. We are compensated based upon the difference (markup) between the price you pay for securities purchased from us and the price we sell such securities to you over the prevailing market price, or the difference (markdown) between the price you sell securities to us and the price we purchase such securities from you over the prevailing market price. The maximum markup/markdown on a transaction with a customer that we receive when acting in a principal capacity typically does not exceed 3% of the value of the security. On rare occasions, a markup/markdown may exceed 3% on a deeply discounted security. We maintain policies and procedures reasonably designed to help ensure compliance with the markup and markdown industry rules.

Error Correction

In the event a trade error takes place and is the cause of San Blas Securities or one of our Financial Professionals, we will cancel the trade and remove the resulting monetary loss to your account. If a trade correction is required as a result of a customer (e.g., if a customer does not make full payment for purchases or fails to deliver negotiable securities for liquidations before trade settlement), San Blas Securities will cancel the trade and any resulting monetary loss will be borne by the customer. In the case of a trade that requires a correction and that resulted in a monetary gain to the customer, such gain may be removed from the account and may result in a financial benefit to San Blas Securities.

Rollovers

In the event you choose to roll assets out of a retirement plan, such as a 401(k) plan, and into an individual retirement account (IRA), we have a financial incentive to recommend that a customer invests those assets with us, because we will be paid on those assets. A customer should be aware that such fees and commissions likely will be higher than those the customer pays through the plan, and there can be custodial and other maintenance fees. As securities held in a retirement plan are generally not transferred to an IRA, commissions and sales charges may be charged when liquidating such securities prior to the transfer, in addition to commissions and sales charges previously paid on transactions in the plan.

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Limitations on Investment Recommendations

San Blas Securities and our Financial Professionals offer and recommend investment products only from investment sponsors with which we have entered into selling and distribution agreements with. Other firms may offer products and services not available through San Blas Securities, and/or they may offer the same or similar investment products and services at lower cost than San Blas Securities. In addition, San Blas Securities may only offer certain products in a brokerage account, even though there is a version of the product that may be offered at a lower cost through an advisory account, and vice versa.

The scope of products and services offered by certain Financial Professionals may also be more limited than what is available through other Financial Professionals. A Financial Professional's ability to offer individual products and services depends on his/her licensing, training or branch office policy restrictions. For example, a Financial Professional maintaining a Series 6, Series 63 and Life Insurance Agent license is limited to providing investment company securities, such as mutual funds and UITs and variable annuity contracts. A Financial Professional maintaining a Series 7, Series 63 and Life Insurance Agent license is able to provide solutions including all securities available for sale by a Series 6 representative as well as individual stocks, bonds, and alternative investments, among others. As another example, a Financial Professional may only be licensed to provide brokerage services, and not advisory services, or vice versa. You should also review the licenses held by your Financial Professional by visiting the FINRA BrokerCheck system at <http://brokercheck.finra.org>.

Compensation of Certain San Blas Securities Employees

Certain San Blas Securities employees provide sales support resources to Financial Professionals who offer various types of brokerage and advisory products and services. The compensation that San Blas Securities pays to these employees varies based on a number of factors, including assets in the program and compensation earned by San Blas Securities from the sales of these products and services. These sales employees have an incentive to promote our programs, products and services over others available through third parties.

Additional Examples of Conflicts of Interest

Gifts and Entertainment

A conflict of interest may arise when an employee receives or offers a gift, entertainment, or anything of value that creates an incentive for an employee, third party service provider, or a client to act in a certain way.

Shared Revenues and Payments from Third Parties

We receive shared revenue, fees, and/or payments from product sponsors and our clearing firm which could create an incentive to offer or recommend certain activities and investments.

Proprietary Trading

The firm engages in business and trading activities for its own account or client accounts while other clients are active in relevant markets at the same time. We are incentivized to maximize our returns and certain trades could disadvantage the performance in your account.

Multiple Roles

The firm or its affiliates may perform multiple roles with respect to a client or transaction (e.g., advisor, lender, broker, riskless principal counterparty). These roles mean we might be biased regarding the services we recommend as they relate to these roles.

Acting in Principal Capacities

We can earn a profit from buying and selling investments from our own accounts so we may have an incentive to encourage you to trade with us.

Outside Business Activities

When approved, registered representatives may engage in certain outside business activities. This may include, but is not limited to: real estate, accounting, insurance, legal, and other professions. As a result, financial professionals may be incentivized to recommend certain products or services outside the scope of their relationship with the firm and they may benefit financial from

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these recommendations. In addition, employees may engage in personal trading or outside business activities (including board memberships/directorships) which could conflict with a client or with the firm.

Political and Charitable Contributions

The Firm and/or its employees charitable and/or political donations could create the perception that the company or employee is seeking a quid pro quo.

Confidentiality

The Firm and its employees are periodically exposed to confidential information which may benefit us or a client.

Supervision Conflicts

When a manager is also producing, he/she may be incentivized to spend more time on revenue generating activities than supervision activities.

Recommendations to Other Financial Professionals Other professionals

(e.g., lawyers, accountants, insurance agents, etc.) may be recommended to clients or engaged directly by the client on an as-needed basis. Although not directly compensated for these referrals to outside entities, your financial professional may receive referrals from these professionals, which might incentivize them to recommend a particular professional over another.

Affiliated Entities

In addition to the Firm's affiliated registered investment adviser, the Firm is also affiliated with other entities, including a state-registered investment advisor. The Firm and your financial professional is incentivized to refer you to all of these affiliates as it generates additional compensation for the firm and financial professional, directly, or through the enterprise.

Payment for Order Flow

The Firm may receive remuneration for directing orders in securities to particular market centers for execution. The Account Holder understands that this remuneration, known as "payment for order flow," is considered compensation to the Firm.

Understanding Risk

Our Firm does not provide tax, legal or accounting advice. Accordingly, we encourage each customer to consult their own personal tax, legal and/or accounting advisers in order to understand the potential consequences associated with a particular investment strategy.

Investing in securities involves risk of loss that customers should be prepared to bear. Different types of investments involve varying degrees of risk and there can be no assurance that any specific investment or investment strategy will be profitable for a customer's investment portfolio. Past performance is not indicative of future results. A customer should not assume that the future performance of any specific investment, investment strategy, or product will be profitable or equal to past or current performance levels. We cannot assure that the investment objectives of any client will be realized. The following is a non-exhaustive list of risks associated with investing. For additional product-specific risks, customers should review their prospectus, offering document, or similar materials and consider them carefully prior to making an investment decision.

- **Interest-rate Risk:** Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline.
- **Market Risk:** The price of a security, bond, or mutual fund may drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's particular underlying circumstances. For example, political, economic and social conditions may trigger market events.
- **Inflation Risk:** When any type of inflation is present, a dollar today will not buy as much as a dollar next year, because purchasing power is eroding at the rate of inflation.
- **Currency Risk:** Overseas investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This is also referred to as exchange rate risk.

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- **Reinvestment Risk:** This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e. interest rate). This primarily relates to fixed income securities.
- **Business Risk:** These risks are associated with a particular industry or a particular company within an industry. For example, oil-drilling companies depend on finding oil and then refining it, a lengthy process, before they can generate a profit. They carry a higher risk of profitability than an electric company, which generates its income from a steady stream of customers who buy electricity no matter what the economic environment is like.
- **Liquidity Risk:** Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many traders are interested in a standardized product. For example, Treasury Bills are highly liquid, while real estate properties are not.
- **Financial/Credit Risk:** Excessive borrowing to finance a business' operations increases the risk of profitability, because the company must meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations may result in bankruptcy and/or a declining market value of securities.
- **Third Party Manager Risk:** Third Party portfolio managers typically have full discretion as to how to manage the model portfolio based on the objective of the model. Such discretion increases the risk that the TPM may mismanage the portfolio and client's assets which may result in client's loss.