



## **UNDERSTANDING COMPENSATION RECEIVED BY CAPITAL INVESTMENT COMPANIES**

### **From Sponsors of Mutual Funds, Variable Insurance Contracts, 529 College Savings Plans, Direct Participation Programs and Non-Traded Real Estate Investment Trusts**

As an investor, it is important that you have a well thought out investment plan to help you meet your investment goals. It is also important for you to understand the sales compensation and certain other fees associated with your investments and the potential conflicts of interest Capital Investment Companies ("Capital") and your registered representative may have when offering and recommending investments to you. This document is intended to help you understand the various forms of compensation that Capital and your representative earn when you purchase a mutual fund, variable insurance contract, 529 college savings plan, direct participation program or non-traded real estate investment trust. These various forms of compensation create potential conflicts of interest, and it is important for you to assess potential conflicts of interest before making an investment decision.

Capital offers a wide variety of investment products, including mutual funds, variable insurance contracts, 529 plans, direct participation programs and non-traded real estate investment trusts. Product sponsors may compensate Capital in various amounts for marketing, selling, processing and maintaining your investments in these products and to reimburse expenses for due diligence. These product sponsors also compensate Capital for training and educating our registered representatives, employees and investors.

### **Mutual Fund and Variable Insurance Contract Revenue Sharing and the Strategic Partners Program**

Although Capital offers thousands of mutual funds from more than 200 mutual fund companies, and hundreds of variable life and annuity contracts from more than 100 insurance companies, we concentrate our marketing and training efforts on those investments offered by a much smaller number of select and well-known companies ("Strategic Partners"). Strategic Partners are selected, in part, based on the competitiveness of their products, their technology, their customer service and their training capabilities.. For a current list of our Strategic Partners, please see Strategic Partners.

Our Strategic Partners pay extra compensation to Capital or its affiliates in addition to the usual product compensation described in the prospectus. The additional amounts Strategic Partners pay Capital vary from one Strategic Partner to another and from year to year. Some Strategic Partners pay up to 25 basis points (1/4%) of your total purchase amount of a mutual fund or variable insurance product. So, for example, if you invest \$10,000 in a mutual fund, Capital could be paid

up to \$25. Additionally, some Strategic Partners make an additional quarterly payment based on the assets you hold in the fund over a period of time of up to 10 basis points (1/10%) per year. [For example, on a holding of \$10,000, Capital could receive up to \$10]. Alternatively, Capital may receive a flat fee from the mutual fund or insurance company, regardless of the amount of new sales or assets held in client accounts. These payments are designed to compensate Capital for ongoing marketing, administration and education of its employees and representatives.

It is important to note that you do not pay more to purchase Strategic Partner mutual funds or insurance products through Capital than you would pay to purchase those products through another broker-dealer and your representative does not receive additional compensation for selling a Strategic Partner product.

## **Potential Conflicts of Interest in Receiving Revenue Sharing From Strategic Partners**

A potential conflict of interest exists in that Capital is paid more revenue-sharing fees if you purchase one type of product instead of another and/or you purchase a product from one particular sponsor instead of another. Your representative also indirectly benefits from Strategic Partner payments when the money is used to support costs relating to product review, marketing or training, or for waiver of ticket charges, as described below.

## **Mutual Fund Compensation Disclosure**

At Capital Investment Companies (Capital) we receive compensation from the mutual fund families that are available to our brokerage customers. These payments include commissions (sometimes referred to as "loads"), trailing commissions (including so-called 12b-1 payments), payments for administrative services that we provide, and payments made in connection with programs that support our marketing and sales force education and training efforts, such as our annual national sales and education conference and other conferences (referred to here as "Sponsorship Programs").

## **Sponsorship Programs**

The mutual fund families that participate in the Sponsorship Programs are listed below. The payments made under the Sponsorship Programs are calculated based upon the assets that are held at the participating mutual fund family, including any 529 college savings plan assets, but excluding assets held in fee-based advisory programs at Capital. Capital may receive compensation of up to 0.15 percent of the assets held at the mutual fund family. [For example, if you held \$10,000 dollars with a participating mutual fund family for one year, Capital could receive a payment of up to \$15 from the mutual fund sponsor.] Capital advisors do not receive any part of these payments.

Capital also assesses financial advisors a \$14 ticket charge for automated purchases of mutual funds. Every mutual fund offered by Capital also may be purchased without a ticket charge by processing the transaction with a check and application sent directly to the mutual fund company. We believe that these programs do not compromise the advice your financial advisor gives you.

## **Mutual Fund Sponsors**

AIM Investments

American Funds

Fidelity Investments

Franklin Templeton Investments

Oppenheimer Funds

WM Group of Funds

## **Commission Information**

When Capital receives a commission from a mutual fund underwriter, the underwriter usually retains a portion of the commission to compensate the underwriter for the distribution services it provides. In some cases, a mutual fund's underwriter will decide not to retain any of the commission and will pay all of the commission to Capital. In these cases, because Capital generally pays our financial advisors the same percentage of any commission we receive, your financial advisor may receive extra compensation for selling a mutual fund that does not retain any of the commission.

## **Trailing Commissions Information**

Many mutual funds pay Capital trailing commissions (including so-called 12b-1 payments). Capital usually retains a portion of these fees as compensation for services we provide, and pays the remainder to our financial advisors, as compensation for the services that they provide to their clients.

## **Variable Annuity Compensation Disclosure**

At Capital we receive compensation from the issuers of the annuities that are available to our brokerage customers. The compensation includes commissions, trailing commissions, and may include payments for administrative services that we provide, such as payments made in connection with programs that support our marketing and sales force education and training efforts, including our annual national sales and education conference and other conferences (referred to here as "Sponsorship Programs").

## **Sponsorship Programs**

The variable annuity issuers that participate in the Sponsorship Programs are listed below. The payments made under the Sponsorship Programs are calculated based upon the assets that are invested in the variable annuity contracts, excluding assets held in fee-based advisory programs at Capital. Capital may receive compensation of up to 0.15 percent of the assets invested with a participating variable annuity sponsor. [For example, if you held \$10,000 dollars with a participating variable annuity sponsor for one year, Capital could receive a payment of up to \$15 from the variable annuity sponsor.] Capital advisors do not receive any part of these payments. We believe that these programs do not compromise the advice your financial advisor gives you.

## **Variable Annuity Sponsors**

AXA Equitable

The Hartford

ING

Lincoln Financial Group

MetLife

Pacific Life

## **More Information**

Information about a variable annuity's fees and expenses may be found in the fee table located in the annuity contract document.

## **Fixed Annuity Compensation Disclosure**

At Capital, we receive compensation from issuers of fixed annuities that are available to our brokerage customers. The compensation includes commissions, trailing commissions, and may include payments for administrative services that we provide, and payments made in connection with our marketing and sales-force education and training efforts, including our annual national sales and education conference and other conferences. The payments made by fixed annuity sponsors include payments that are based upon assets held at the sponsor, excluding assets held in fee-based advisory programs at Capital. Capital may receive compensation of up to 0.25 percent of the assets held at the fixed annuity sponsor. For example, if you held \$10,000 dollars with a sponsor for one year, Capital could receive a payment of up to \$25 from that sponsor. These payments do not affect your premiums, and Capital advisors do not receive any portion of these payments.

## **Fixed Annuity Sponsors**

Ash Brokerage

Lincoln Financial Group

Pacific Life

## **Life Insurance Compensation Disclosure**

At Capital, we receive compensation from issuers of life insurance contracts (universal, variable universal, whole life and term) that are available to our brokerage customers. The compensation includes commissions, trailing commissions, and may include payments for administrative services that we provide, and payments made in connection with our marketing and sales-force education and training efforts, including our annual national sales and education conference and other conferences. Capital may receive compensation in a range of 5 to 10% of first year commissionable premiums for marketing, training and supporting distribution of life products offered through Capital as a broker/dealer, and of 10 – 25% of first year commissionable premiums to support the additional case management services that Capital provides for products offered through Capital's general agency. Capital may also receive additional compensation from carriers whose aggregate sales exceed premium thresholds specified in selling agreements. These payments do not affect your premiums, and Capital advisors do not receive any portion of these payments.

## **Third Party Investment Advisors**

Capital may enter into marketing services agreements with independent third party investment advisors, pursuant to which Capital provides marketing services on behalf of the third party investment advisor and receives compensation for such advisors that have engaged Capital to provide such marketing services. These third party investment advisors have greater access to Capital advisors. Capital advisors do not share in this marketing services compensation. Also, in some cases, the third party investment advisors may pay additional marketing payments to Capital and/or Capital advisors to cover fees to attend conferences or reimbursement of expenses for workshops or seminars.

## **Training and Education Compensation**

Capital and its representatives also receive additional compensation from mutual fund and insurance companies that is not related to individual transactions or assets held in accounts. This money is paid, in accordance with regulatory requirements, to offset up to 100% of the costs of training and education of our representatives and employees. In some instances, mutual fund and insurance companies may pay a flat fee in order to participate in a Capital training and educational meeting. These meetings or events provide Capital representatives with comprehensive information on products, sales materials, customer support services, industry trends and sales techniques.

It is important to note that due to the number of mutual fund and variable insurance products Capital offers, not all product sponsors have the opportunity to participate in these training and educational events. In general, our Strategic Partners have greater access to participation in these events and therefore greater access to, and opportunity to build relationships with, our representatives.

Some of the training and educational meetings for which Capital or its representatives receive reimbursement of costs may include client attendance. If you attend a training or educational meeting with your registered representative and a product sponsor is present, you should assume that the product sponsor has paid for all or a portion of the costs of the meeting or event.

## **Other Cash and Non-Cash Compensation**

In addition to reimbursement of training and educational meeting costs, Capital and its representatives may receive promotional items, meals or entertainment or other non-cash compensation from representatives of mutual fund companies, insurance companies and direct participation sponsors, as permitted by industry rules. Additionally, sales of any mutual funds and variable insurance products and other products, whether or not they are issued by Strategic Partners, may qualify Capital representatives for additional business support and for attendance at seminars, conferences and entertainment events. Further, some of Capital's home office management and certain other employees may receive a portion of their employment compensation based on sales of products of Strategic Partners.

## **529 Plans**

In addition to transaction-based compensation for sales of 529 plans, 529 plan assets are included in the amount of total mutual fund or variable annuity assets for which revenue sharing is paid as described above. Capital does not separately account for these payments and does not have any 529 Plan Strategic Partners.

## **Direct Participation Programs and Non-Traded Real Estate Investment Trusts**

Subject to regulatory requirements limiting compensation, direct participation programs and non-traded real estate investment trusts may pay Capital marketing allowances. Such companies may also pay the costs of training and education meetings.

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If you have any questions about any portion of this document, please feel free to discuss them with your registered representative or call (919) 831-2370.