

# **Gramercy Securities, Inc.**

## **Regulation Best Interest Disclosure**

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# Contents

|   |          |
|---|----------|
| <b>Regulation Best Interest Disclosure</b> .....  | <b>1</b> |
| <b>Brokerage Services</b> .....   | <b>1</b> |
| Recommendations.....  | 2        |
| Account Monitoring, and Incidental Brokerage Services .....                             | 2        |
| Minimum Investment Requirements.....  | 2        |
| Understanding Risk.....   | 2        |
| <b>Brokerage Fees and Our Compensation</b> .....  | <b>4</b> |
| Transaction-Based Fees .....  | 4        |
| Administrative and Service Fees .....   | 4        |
| How We Are Compensated .....  | 4        |
| Investment Product Compensation .....   | 4        |
| Mutual Funds.....   | 4        |
| Private Placement Compensation.....   | 5        |
| Revenue Sharing.....  | 5        |
| <b>Conflicts of Interest</b> .....  | <b>5</b> |
| Compensation We Receive from Clients .....  | 6        |
| Transaction-Based Conflicts.....  | 6        |
| Compensation We Receive from Third Parties .....  | 6        |
| Additional Compensation and Benefits from Product Sponsors and Other Third Parties .... | 7        |
| Compensation Related to Proprietary Products.....                                       | 7        |
| Compensation Related to Our Affiliates .....  | 7        |
| Compensation Received by Registered Representatives .....                               | 7        |
| <b>Additional Resources</b> .....   | <b>8</b> |

# Regulation Best Interest Disclosure

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This disclosure provides information about the business practices, compensation and conflicts of interest related to the collective brokerage and advisory business of Gramercy Securities, Inc. (“Gramercy”, “our”, “we”, “us”) offers brokerage services to you and our clients. This guide summarizes important information concerning the scope and terms of those brokerage services that are offered by us 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, and disclosure documentation you may receive or have received from us.

As you review this information, we would like to remind you that we are registered with the U.S. Securities and Exchange Commission (“SEC”) as a broker-dealer providing brokerage services, and a member firm of the Financial Industry Regulatory Authority (“FINRA”). As a broker-dealer, Gramercy transacts business in various types of securities, including mutual funds and private placements. Additional information about Gramercy and its financial professionals is available on FINRA’s website at [www.brokercheck.finra.org](http://www.brokercheck.finra.org), or via the SEC’s website at [www.sec.gov](http://www.sec.gov).

Our Form CRS contains important information about the types of services we offer, brokerage, along with general information related to compensation, conflicts of interest, disciplinary action, and other reportable legal information.

Please note that not all of the conflicts described in this disclosure apply to a particular Registered Representative, his or her services, or all the products we market. 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 contained in each section set forth herein.

## Brokerage Services

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We provide our clients with access to various families of mutual funds and offering of unregistered debt or equity securities (“public or private placements” and or “private placement investments and non-traded public and private REITS”). Your investments in the above categories are collectively referred to herein as “investment(s)”. Our services include the determination of investor suitability for an investment, making investment recommendations consistent with your investment strategy, and facilitating the execution and settlement of your purchases of mutual funds, and private placement securities. Additionally, our services are provided on a non-discretionary basis, and while we may recommend investments for you, the ultimate investment decision regarding the purchase of any mutual fund, or private placement investment will be yours. Finally, our recommendations are made in a brokerage capacity, and as such, we do not agree to enter into a fiduciary relationship with you. For more information on our services, contact your Registered Representative, or you can contact Roderick Scribner at 800-333-7450.

## **Recommendations**

Our services include the determination of suitability for the respective investment, making investment recommendations consistent with your investment strategy, and facilitating the execution and settlement of your investment transactions. We provide recommendations with regards to the investments we market. Those recommendations are based upon our due diligence regarding the product, including the sponsor or issuer, the business history and experience and other information material related to a decision to invest in the respective investment product. It is important for you to understand that when your Registered Representative makes a 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.

## **Account Monitoring, and Incidental Brokerage Services**

We do not commit to, nor do we provide for the on-going monitoring of your investments. It is also your responsibility to monitor the investments, and we encourage you to do so regularly. Additionally, from time to time we may provide you with additional information and resources to assist you with understanding private placement securities. This may include by way of example, resources, sales and marketing materials, performance reports, and/or periodic review of your private placements. 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, they do not contain specific investment recommendations about investment holdings, and you should not consider them a recommendation to buy or hold any particular private placement investment you may have. 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.

## **Minimum Investment Requirements**

Each investment sponsor or issuer sets the minimum investment and suitability requirements for prospective investors in each respective investment offering. While we generally require retail investors be “accredited investors” to purchase private placements through us, the sponsor of such private placement investments generally sets that requirement. The actual investor investment requirements are detailed in the respective prospectus, annuity insurance disclosure documentation, private placement memorandum, private offering memorandum or disclosure prepared by the sponsor or issuer, as well as in the subscription agreement you will be required to execute to acquire an investment (collectively the “Offering Documents”).

## **Understanding Risk**

It is important for you to understand that all investment recommendations and activities involve risk, including the risk that you may lose your entire principal. Further, some investments involve more risk than other investments. Higher-risk investments may have the potential for higher returns but also for greater losses. The higher your “risk tolerance,” meaning the amount of risk or loss you are willing and able to accept in order to achieve your investment goals, the more you may decide to invest in higher-risk investments offering the potential for greater returns. We align risk tolerances with investment needs to offer you different investment objectives from which to choose (see below). You should select the

investment objective and risk tolerance best aligned with your brokerage account goals and needs.

Investment goals typically have different time horizons and different income and growth objectives. Generally, investment goals are on a spectrum, with “*Income*” investors typically holding the smallest percentage of higher- risk investments, followed by “*Growth and Income*” investors holding some higher-risk investments, and finally “*Growth*” investors holding a significant portion of their portfolio in higher-risk investments. Risk tolerance also varies, and we measure it on a continuum that increases from “*Conservative*” to “*Moderate*” to “*Aggressive*,” and finally “*Trading and Speculation*.” See the chart below for details.

| <b>Investment Objective</b> | <b>Investment Objective Description</b>  | <b>Risk Tolerance</b> | <b>Risk Tolerance Definition</b>   |
|-----------------------------|--|-----------------------|--|
| Income                      | Income portfolios emphasize current income with minimal consideration for capital appreciation and usually have less exposure to more volatile growth assets.  | Conservative          | Conservative Income investors generally assume lower risk, but may still experience losses or have lower expected income returns.  |
|                             |  | Moderate              | Moderate Income investors are willing to accept a modest level of risk that may result in increased losses in exchange for the potential to receive modest income returns.     |
|                             |  | Aggressive            | Aggressive Income investors seek a higher level of returns and are willing to accept a higher level of risk that may result in greater losses.                                 |
| Growth & Income             | Growth and Income portfolios emphasize a blend of current income and capital appreciation and usually have some exposure to more volatile growth assets.   | Conservative          | Conservative Growth and Income investors generally assume a lower amount of risk, but may still experience losses or have lower expected returns.                              |
|                             |  | Moderate              | Moderate Growth and Income investors are willing to accept a modest level of risk that may result in increased losses in exchange for the potential to receive modest returns. |
|                             |  | Aggressive            | Aggressive Growth and Income investors seek a higher level of returns and are willing to accept a higher level of risk that may result in greater losses.                      |
| Growth                      | Growth portfolios emphasize capital appreciation with minimal consideration for current income and usually have significant exposure to more volatile growth assets.   | Conservative          | Conservative Growth investors generally assume a lower amount of risk, but may still experience increased losses or have lower expected growth returns.                        |
|                             |  | Moderate              | Moderate Growth investors are willing to accept a modest level of risk that may result in significant losses in exchange for the potential to receive higher returns.          |
|                             |  | Aggressive            | Aggressive Growth investors seek a higher level of returns and are willing to accept a high level of risk that may result in more significant losses.                          |
| Trading and Speculation     | Trading and Speculation investors seek out a maximum return through a broad range of investment strategies which generally involve a high level of risk, including the potential for unlimited loss of investment capital. |                       |  |

Our recommendations are based in part on your risk tolerance and investment objectives as outlined above. We encourage you to carefully consider your investment objectives and risk tolerance before investing.

## **Brokerage Fees and Our Compensation**

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### **Transaction-Based Fees**

You will generally pay transaction-based fees when you acquire investments through us. These transaction-based fees are generally referred to as a “*commission*,” or, “*sales charge*,” depending upon the investment product you purchase. Transaction-based fees are based on a host of factors, including, but not limited to:

- Underlying product selection
- Specific terms and conditions set forth in the Prospectus
- Amount of your investment
- Available discounts and/or waivers described in the Prospectus

### **Administrative and Service Fees**

We do not charge clients additional administrative or service fees related to investments.

### **How We Are Compensated**

We receive direct compensation in connection with your investments in mutual funds, and private placements. Direct compensation is generally a commission paid directly out of your initial investment proceeds. Indirect compensation is compensation that is earned in ways other than through your initial investment, and may impact the value of the associated private placement investment. The section below describes the compensation that we receive in connection with private placement investments that we may make available to you.

### **Investment Product Compensation**

#### **Mutual Funds**

We currently place mutual funds varying in share class structure and investment style on a subscription basis. If you invest in mutual funds, we receive direct and indirect compensation in connection with such mutual fund investments, as described below.

**12B-1/Shareholder Service Fees.** Annual 12b-1 fees, also known as trails, are paid by the fund, and paid to us out of fund assets under a distribution and servicing arrangement to cover distribution expenses and sometimes shareholder service expenses that we may provide on the fund’s behalf. Shareholder servicing fees are paid to respond to investor inquiries and provide investors with information about their investments. These fees are asset-based fees charged by the fund family. These fees range from 0.00% to 1.00%, but the majority of these fees are below 0.25%. These fees may be passed on to us and may in turn be passed on to your Registered Representative as a commission.

**Front-end Sales Charge Fees/Contingent Deferred Sales Charges (CDSC).** Front-end sales charge fees may be charged and paid to us, including your Registered Representative, when you purchase a fund. The front-end sales charge is deducted from the initial investment on certain share classes. This charge normally ranges from 0.00% to 5.75%. Some purchases may qualify for a reduced front-end sales charge due to breakpoint discounts

based on the amount of transaction and rights of accumulation. In addition, some purchases may qualify for a sales charge waiver based on the type of account, and/or certain qualifications within the account. You should contact your Registered Representative if you believe you are eligible for sales charge waivers.

CDSC is a charge you pay upon withdrawal of money from a fund prior to the end of the fund's CDSC period. CDSC charges range from 0.00% to 2.85%. CDSC periods can range from zero to seven years. This charge typically exists only on share classes that do not have a front-end sales charge. It is sometimes referred to as the back-end load. CDSCs are not charged when you purchase a fund. The fee charged will depend on the share class purchased by the investor. A CDSC is not passed on to your Registered Representative. You can find a description of the amount and payment frequency of all fees and expenses charged and paid by the fund in the fund's prospectus. Fees and expenses disclosed in the fund's prospectus are charged against the investment values of the fund. Please note that 12b-1s and similar fees or compensation received in connection with our offered funds are not received, or are rebated, on ERISA assets.

### **Private Placement Compensation**

Our compensation is based on a percentage of your invested capital in the private placement. The percentage payable to us is set out and disclosed in the Offering Documents that we provide you. The commission payable to us is non-negotiable, as it is negotiated between the sponsor or issuer of the private placement and us, prior to the offering of the private placement securities to potential investors. Our compensation is generally paid out of the proceeds of the offering by the issuer, although it may be paid by the sponsor or an affiliated entity. See the Offering Documents for a complete discussion of the compensation arrangements with the sponsor and or issuers and Gramercy.

Your Registered Representative may receive a portion of the compensation, as determined by the Registered Representative and us. Your Registered Representative can provide you with the most recent Offering Documents, which in addition to disclosing our compensation arrangements, also discloses additional fees and costs imposed on the private placement investment by the issuer and its affiliates, risks related to investing in that private placement, the minimum investments accepted, the suitability requirements of investors, and other information critical to an investors decision to invest in any such private placement investment. It should be noted that private placement securities are illiquid, there is no public market for the securities and no such public market is expected to develop in the future.

### **Revenue Sharing**

We do not participate in any revenue sharing arrangements with the sponsors or issuers of investments.

## **Conflicts of Interest**

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Like all financial service providers, Gramercy and its Registered Representatives have conflicts of interest 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 adverse 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 Registered Representatives, our clients and third parties. We receive various forms of compensation from sponsors and issuers as described above. Securities rules allow for us, our Registered Representatives, and our affiliates to earn compensation when we provide services to you. However, the compensation that we and our Registered Representatives receive from you varies based upon the private placement investment purchase, which creates a financial incentive to recommend private placement investments 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 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.

## **Compensation We Receive from Clients**

### **Transaction-Based Conflicts**

You pay commissions and private placement fees in connection with the buying of each private placement. Where these fees apply, the more transactions you enter into, the more compensation that we and your Registered Representative receive. This compensation creates an incentive for us to recommend that you buy these investments. We also have an incentive to recommend that you purchase private placements that carry higher fees, instead of private placements that carry lower fees or no fees at all.

## **Compensation We Receive from Third Parties**

With regards to mutual funds, the third-party payments we receive may be based on new sales of investment products, creating an incentive for us to recommend you buy and sell, rather than hold, investments. In other cases, these payments are made on an ongoing basis as a percentage of invested assets, creating an incentive for us to recommend that you buy investments (or continue to invest through certain mutual funds).

The total amount of payments we receive varies from product to product. It also varies from the compensation we receive in connection with other products we may make available to you. We have an incentive to recommend investment products and services that generate greater payments to us. This compensation generally represents an expense embedded in the investment products and services that is borne by investors, even where it is not paid by the product sponsor and not directly from the investment product or other fees you pay.

The types of third-party compensation we receive include what is referred to as “trail compensation”. Trail compensation represents ongoing compensation from product sponsors that may be received by us and shared with our Registered Representatives. This compensation (commonly known as trails, service fees or Rule 12b-1 fees in the case of mutual funds) is typically paid from the assets of the investment product under a distribution or servicing arrangement and is calculated as an annual percentage of invested assets. The amount of this compensation varies from product to product. We have an incentive to recommend that you purchase interests in products that pay us higher trails.



## **Additional Compensation and Benefits from Product Sponsors and Other Third Parties**

We and our Registered Representatives, associates, employees, and agents may receive additional compensation from sponsors, issuers and other third parties including:

- An occasional dinner or ticket to a sporting event, or reimbursement in connection with business development activities.
- Payment or reimbursement for the costs associated with education, training, marketing, or advertising initiatives, including marketing to prospective investors, that are attended by our employees, agents, and Registered Representatives.

The amount of these payments or benefits is not dependent or related to the level of assets you or any other of our clients invest through us or with the product sponsor.

## **Compensation Related to Proprietary Products**

We do not offer proprietary products.

## **Compensation Related to Our Affiliates**

We earn no compensation related to our private placement activities from the activities of affiliates.

## **Compensation Received by Registered Representatives**

Registered Representatives are compensated in a variety of ways based on the percentage of revenue generated to us from the sales of investment products to clients. This compensation may vary based upon the investment associated with our recommendation. In addition to upfront-transaction based compensation, some investment products feature on-going residual or “trail” payments. Thus, Registered Representatives are incentivized to recommend investments that have higher fees, as well as those with on-going payments. We have controls established to identify and mitigate this risk.

Typically, a Registered Representative’s payout schedule increases with production and asset levels. The same payout schedule is reduced when Registered Representatives discount certain client fees and commissions, or client relationship asset levels are below minimums established by us. As a result, Registered Representatives have an incentive to provide recommendations that result in selling more investments, as well as investment products that carry higher fees, to increase commissions.

Non-cash compensation is provided to Registered Representatives in the form of credits toward business expense accounts and certain titles. Registered Representatives are also compensated in the form of education meetings. Portions of these programs are subsidized by external vendors and affiliates, such as sponsors and issuers. Consequently, product providers that sponsor and/or participate in education meetings gain opportunities to build relations with Registered Representatives, which could lead to sales of such product provider’s products. Registered Representatives also receive promotional items, meals, entertainment, and other noncash compensation from product providers up to \$100 per year for gifts and meals.

# Additional Resources

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**Title**

**Web Address**

FINRA

<https://www.finra.org/>

SIPC

<https://www.sipc.org/>

BrokerCheck

<https://brokercheck.finra.org/>