Chelsea Financial Services
1999 - 2019
20th Anniversary

242 Main Street | Staten Island, New York 10307

INVESTING FOR YOUR WORLD

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IMPORTANT DISCLOSURES ABOUT YOUR BROKERAGE ACCOUNT

Our capacity when making recommendations to you

Chelsea Financial Services ("Chelsea Financial") will act as a broker when we or our associated persons make recommendations to you.

Chelsea Financial is a broker-dealer. We have an affiliated firm, Chelsea Advisory Services ("Chelsea Advisory"), that provides investment advisory services. You have received a separate Relationship Summary that explains the key differences between the two firms, and between brokerage and investment advisory services. This document provides additional disclosure about specific aspects of your brokerage relationship with Chelsea Financial. You can obtain additional information about Chelsea Advisory by reading that firm's ADV Part 2A disclosure brochure.

When you have a brokerage or an advisory account, Chelsea Financial will be the "broker of record" and will introduce the account to Hilltop Securities, Inc. ("Hilltop") for clearing and custody services. This is mostly an administrative function and provides some operational efficiencies and financial benefits to both Chelsea Advisory and Chelsea Financial. Chelsea Financial will not, however, make recommendations about transactions in your advisory account. We will only make recommendations when we open an account for you as a broker-dealer client of Chelsea Financial. When you open an account, we will notify you whether it is a broker-dealer (Chelsea Financial) or an investment advisory (Chelsea Advisory) account.

All recommendations regarding your brokerage account will be made in a broker-dealer capacity and all recommendations regarding your advisory account will be in an advisory capacity. Most clients do not have both types of accounts. If you do have both, when we make a recommendation to you, we will expressly tell you orally which account we are discussing.

If you open an account with a representative who can offer only broker-dealer accounts, we will tell you that. Being able to offer only brokerage services is a material limitation on the services that representative can offer you.

The material fees and costs that apply to your transactions, holdings, and accounts

Chelsea Financial, as well as our associated persons, are paid when you agree to the brokerage transactions we recommend. We earn a commission on those transactions that is either a flat fee (stocks and exchange traded funds ("ETF") or a percentage of the amount invested (bond, mutual funds, unit investment trusts ("UIT"), variable annuities, and sometimes stocks or ETFs).

- Mutual fund and UIT commissions are deducted from the fund share price and paid from the mutual fund company or UIT sponsor to brokerage firms like Chelsea Financial. Similarly, variable annuity commissions are paid by the insurance company and built into the cost structure of the annuity's separate accounts. There are different types of

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commission structures, but the mutual funds, and variable annuities we recommend usually pay an initial commission that varies depending on how much you've invested. While mutual fund commissions vary by fund company, a typical mutual fund breakpoint structure starts at 5% if you invest less than $25,000 and declines to 2% in you invest between $500,000 and $1 million. Trail commissions are typically .25% per year. Variable annuity commissions may be as high as 7% and involve a declining surrender penalty, representing a percentage of the contract value, for up to seven years after the initial investments. The UITs we recommend typically pay commissions of 1.25-2%. We also typically receive ongoing trail commissions of 1/4 percent to 1% per year, but this varies. In addition to this disclosure, you will receive a prospectus for the mutual fund, UIT, or variable annuity you purchase, which contains important information about fees and expenses.

- Mutual funds, UITs, exchange-traded funds, and variable annuities also have built-in expenses that are paid to the manager of the funds, as well as the sponsor or administrator. These expenses exist regardless of whether the fund/annuity company pays commissions or trails to brokers; the expenses are typically lower for funds/ annuities that do not pay commissions or trails. Trail commissions don't apply to ETFs or UITs. UITs do, however, have limited terms (generally one-and-a-half to two years), and representatives will generally recommend that clients invest in a new UIT and incur a new commission, as long as that recommendation continues to be in the client's best interest.

- Bond commissions, also called "mark-ups" or "mark-downs" are usually 1-3% of the face amount of the bonds you buy.

- For stock and ETF trades, your registered representative will decide what the commissions are, subject to maximum rates we impose, and a minimum commission of $100 that your representative may choose to waive. Your commissions on a stock transaction will not be greater than 5% of the total trade value, unless the $100 minimum charge applies. **You and your representative will agree to the commissions and the rates are negotiable, subject to the maximum and minimum charges.**

- For stock, ETF and bond trades, the commission charged will appear on the trade confirmation Hilltop Securities sends you after each transaction.

You will also pay a postage and handling charge for each trade. Hilltop shares these fees with us.

If you have a margin balance, you will pay interest to Hilltop at the current lending rate, which is subject to change daily. Hilltop shares a portion of the margin interest with us.

You will pay other fees to Hilltop, such as annual account maintenance fees of $90 on non-retirement accounts and $50 for retirement accounts. These fees are shared between Hilltop and

Chelsea Financial. Hilltop charges a fee of $50 per year for IRA accounts. Hilltop will assess other fees, such as wire fees, and will disclose them to you when you establish your account.

The type and scope of services we provide to you

We are a full-service broker-dealer. We do not offer proprietary products (i.e., products that we create or sponsor). Most of our recommendations involve ETFs, open-end mutual funds, UITs, variable annuities, individual equities, and occasionally bonds, or options, but we do not have specific limits on the products we recommend.

Our recommendations are tailored to your needs, objectives and risk tolerance. We do not provide ongoing monitoring of your investments but may periodically review your investments in order to make a recommendation. You are welcome to ask your representative to review your investments at any time.

Chelsea Financial does not maintain an investment committee or create centralized recommendations. Our representatives are independent contractors and generally formulate their own recommendations, subject to Chelsea Financial's supervisory oversight and industry norms and rules.

Our representatives, rather than the firm, determine what recommendations will be made to clients. In some cases, recommendations will follow broad principles of diversification and asset allocation, such as a mix of equities and fixed income. In other cases, the recommendations will be focused in specific industries or types of securities, such as high-growth or speculative equities. The recommendations are driven by the client's needs, objectives, and risk tolerance, rather than a single investment philosophy that applies to all clients. Your representative will explain his or her own investment approach to you. In all cases, the representative's recommendations will be based on the client's individual needs and best interest.

Conflicts of interest

Conflict of interest means an interest that might incline the firm or our representatives—consciously or unconsciously—to make a recommendation that is not disinterested.

Our primary conflict of interest is that Chelsea Financial and our associates are paid when you agree to a recommendation we make. We are paid based on transactions, which means we have a financial incentive to recommend that you make transactions more frequently, rather than less frequently. Similarly, mutual funds and variable annuities often pay higher commissions than stock, ETF, or bond trades, which provides an incentive for us to recommend them. You do not have to agree to the trades we recommend and we encourage you to confirm what commissions apply to any transaction your representative recommends. Remember that with mutual funds and variable annuities, the commission technically comes from the fund sponsor or insurance company. Accordingly, it's a good idea to ask how much commission the firm and/or the representative will be paid, rather than how much you will pay, to get a clearer understanding of the financial incentive involved.

Your representative might be licensed to sell life insurance and other insurance products other than variable annuities. These non-variable insurance products are typically not sold through Chelsea Financial though your representative will receive customary commissions if you choose to purchase the insurance product recommended. You are not required to do so.

It is possible that your representative could have a conflict related to his or her own interest in a transaction that goes beyond the transaction-based commission conflict we've described here. If that occurs, your representative is required to disclose the conflict to you at the time of the recommendation.

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