

## MY COMMITMENT TO YOU AS A CFP® PROFESSIONAL

As a **CERTIFIED FINANCIAL PLANNER™**, my extensive training and financial planning experience will help to assess your current needs and develop a plan to achieve your financial goals. As a CFP® professional, I am held to strict ethical standards to ensure that any financial advice and financial planning recommendations I make are in your best interest. As part of my commitment to you as a CFP® professional, I will be transparent with you regarding material conflicts of interest as defined by the CFP Board, which simply put are business relationships or compensation structures that could influence my relationship with you if not properly managed and that a typical client would want to know about in making a decision (hereafter, “conflicts of interest” or “conflicts”). While most, if not all, financial services business structures contain conflicts of interest of one kind or another, all CFP® professionals must disclose these conflicts so that prospective clients can make an informed decision as to whom they turn to for financial planning and advice.

I provide below a description of my relationship with The Northwestern Mutual Life Insurance Company (“NM”) and its relevant affiliates (collectively, “Northwestern Mutual”), a summary of my and Northwestern Mutual’s approach to managing conflicts of interest, an explanation of how I and Northwestern Mutual are compensated, and the conflicts of interest that arise because of the manner in which we are each compensated. The compensation arrangements and conflicts that I describe below are not necessarily unique to Northwestern Mutual—many of them are common in the marketplace for insurance and investment products.

For more information regarding what it means to be a CFP® professional and the standards that I am required to adhere to by the CFP Board, please visit [www.cfp.net](http://www.cfp.net).

### **My Relationship with Northwestern Mutual**

I am proud of the work I do to serve my clients’ best interests as I help them achieve financial security. As part of that process I recommend, sell and service a variety of Northwestern Mutual insurance products (e.g., life, annuities, disability income and/or long-term care, the latter through NM’s wholly-owned subsidiary Northwestern Long Term Care Insurance Company (“NLTC”)) that can help protect you, your family, and your business from the adverse financial impact of dying prematurely, outliving your income during retirement, incurring a significant disability during your working years or suffering a long-term care event. Northwestern Mutual makes its products available only through Northwestern Mutual licensed representatives, such as me. Pursuant to my Northwestern Mutual contract, my primary insurance product affiliation is with Northwestern Mutual and I primarily recommend, sell and service Northwestern Mutual insurance products.

However, my contract does not otherwise limit my ability to recommend, sell and service other companies’ insurance products to any particular client so long as I meet my obligation to primarily recommend, sell and service Northwestern Mutual insurance products in appropriate circumstances. In acting in your best interest, I would recommend, sell and service other companies’ insurance products (when such products are available from among those I am authorized to sell by other companies) in the following situations:

- When my offer of a Northwestern Mutual insurance product is not acceptable to you;
- When Northwestern Mutual is unable to offer coverage;
- When Northwestern Mutual’s underwriting criteria are materially unfavorable;
- When Northwestern Mutual does not offer an insurance product or type of insurance product that meets your (or your business’s) needs or objectives; or
- When a Northwestern Mutual insurance product that otherwise meets your (or your business’s) needs or objectives does not offer a unique product feature appropriate for your specific situation.

As a registered representative of Northwestern Mutual Investment Services, LLC (“NMIS”), a broker-dealer wholly-owned by NM, I am also qualified to recommend, sell and service certain securities products, including NM variable life insurance and variable annuities, as well as a limited number of other companies’ variable life and variable annuity products that are approved by NMIS from time to time. In determining whether another company’s variable product is appropriate to sell to and/or service for our clients, NMIS considers the features, benefits, costs, and risks of the variable product, the need for the variable product in our distribution system, and whether any additional supervision or training is required. Consistent with most broker-dealers’ practices, as a registered representative of NMIS, I am not allowed to associate with other broker-dealers.

I am also an advisor of the Northwestern Mutual Wealth Management Company (“NMWMC”), a wholly-owned subsidiary of NM and a limited purpose federal savings bank. If I am an advisor of NMWMC, I am qualified to offer you proprietary (i.e., issued, sponsored or managed by NM or its affiliates) investment advisory programs and services (generally referred to as the Signature Advisory Programs), including an NM fee-based variable annuity product. Additionally, if I have completed required training, I am able to offer financial planning for a fee. I do not sell other companies’ investment advisory programs and services or fee-based variable annuity

products. It is important to note that though the Advisory Programs are proprietary, they are funded primarily with mutual funds and other assets that are not issued, sponsored or managed by Northwestern Mutual.

I am required to meet annual minimum insurance production requirements established by Northwestern Mutual from time to time. These annual minimum insurance production requirements are intended to be modest and generally commensurate with the amount of production that would be expected of any financial representative in the business on a full-time basis.

Whenever I help a client acquire an insurance product, I receive compensation. The compensation and benefits that I receive from Northwestern Mutual (including NLTC, NMIS and NMWMC), which are further discussed below, are conflicts of interest because they create an incentive for me to recommend insurance products, securities products and investment advisory programs and services (“products and services”) issued or offered by Northwestern Mutual (which receives an economic benefit when you purchase and retain its products and services) instead of products and services issued or offered by other companies.

However, when I help a client acquire an insurance product from another insurance company I am compensated as well (by commissions paid by that insurance company). In general, insurance brokered with other insurance companies generates larger up-front commissions, whereas insurance products sold through Northwestern Mutual generally have lower up-front commissions but include other benefits to me. NM prohibits its licensed representatives from recommending, selling or servicing any fixed index annuity/equity index annuity product. In general, the total compensation I receive for insurance policies sold to solve a long-term insurance need is comparable regardless of the issuing company.

### **How I and Northwestern Mutual Manage Conflicts of Interest**

For more than 160 years, Northwestern Mutual has been helping individuals, families and businesses achieve financial security. Northwestern Mutual has achieved that long-term success by having representatives such as me focus on developing life-long relationships with our clients using a holistic planning approach that combines both insurance and investment recommendations to help achieve financial security. In the long run, I will benefit most by serving you well—not only as our relationship grows, but also as your satisfaction supports your endorsement of my services to others. This only occurs when I am acting in your best interest.

In order to develop life-long relationships with my clients and help ensure I provide financial advice or planning recommendations in their best interests, I engage in a discovery process using various tools to ensure I have a clear understanding of my clients’ needs and aspirations. In making recommendations to you to meet your needs and achieve your goals, I gather various relevant information about you, which can include your age, other investment or insurance holdings, financial situation and needs, tax status, financial objectives, financial experience, time horizon, liquidity needs, risk tolerance, and any other information that you may disclose to me. I use this information to match your needs, aspirations and attributes with the right product or service irrespective of the compensation that I will receive if you purchase those products or services. Lastly, I strive to maintain life-long relationships with my clients to help ensure they stay on track. The rigor of these processes supports my ability to make recommendations that are in your best interest notwithstanding my conflicts of interest.

In addition, although Northwestern Mutual and its affiliates are not responsible for supervising me to ensure that I meet the standards set by the CFP Board, I am subject to written policies and procedures and extensive supervisory systems established by Northwestern Mutual and its affiliates that have been designed to ensure that insurance and investment products are appropriately sold by its financial representatives, irrespective of whether the representative is a CFP® professional.

Northwestern Mutual and its affiliates’ supervisory systems include assigned supervisors, human review of transactions, electronic reviews that spot potential issues with a transaction, trend monitoring systems that analyze representative activity over periods of time, training of representatives and supervisory staff with respect to their obligations and the periodic testing and auditing of the effectiveness of the written policies and procedures and the supervisory structure and systems. These processes can help identify if a representative’s compensation is inappropriately influencing his or her recommendations.

The nature of Northwestern Mutual and its insurance products also helps to manage these conflicts of interest. NM is organized as a mutual company, which means that it is formed for the benefit of its policyowners and not corporate owners or shareholders. NM’s mutual structure aligns client and company interests—succeeding for our policyowners is its mission, purpose and reason to exist. Northwestern Mutual’s insurance products are backed by unsurpassed financial strength—Northwestern Mutual continues to earn the highest financial strength ratings awarded to any U.S. life insurer by all of the four major rating agencies.<sup>1</sup> Northwestern Mutual is also

ratings are a measure of the company’s relative financial strength and security but are not a reflection of the performance or stability of funds invested in a company’s separate accounts.

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<sup>1</sup> Third-party ratings are subject to change. Ratings are for The Northwestern Mutual Life Insurance Company and Northwestern Long Term Care Insurance Company. Third-party

recognized as a leader in insurance product value through careful underwriting, low expenses, high policyowner loyalty and prudent investing. In short, in recommending Northwestern Mutual insurance products, I am ensuring my clients are purchasing high quality products, with low relative expenses over the long-term, that are backed by a company with unmatched financial strength and product performance. With all of that said, in acting in your best interest, I can offer you other insurance carriers' products in the circumstances described above.

My conflicts are further mitigated by Northwestern Mutual's compensation practices. Where it is practically feasible to eliminate or mitigate conflicts of interest that arise from compensation practices, Northwestern Mutual has sought to do so. A core principle of Northwestern Mutual's product compensation design for insurance product sales is to ensure the value of compensation and benefits (as a percent of premiums, for the expected life of the product) is equivalent across like products. Northwestern Mutual has criteria in place to ensure that any bonus programs focus on long-term production (as opposed to any one recommendation or sale) and are proportional to the total compensation of the representative. Specific programs within Northwestern Mutual's compensation for insurance products were designed intentionally to minimize compensation that could lead to sales behavior that would potentially create a conflict with a client's best interest. I am compensated the most when my clients own their insurance policies for many years, which incentivizes me to recommend policies that are in my clients' long-term best interest and that deliver exceptional value to clients over the long run. In this way, my compensation is aligned with the value I deliver to clients. In addition, to disincentivize short-term sales that aren't in my clients' best interest, Northwestern Mutual reverses a portion of first-year commissions on life insurance policies that are cancelled in the first year, and after the first year it reverses renewal commissions paid in the year of cancellation (each of which commission type is described in more detail below). For certain products, Northwestern Mutual reverses a percentage of all commissions paid for up to three years. All of these steps help to manage my conflicts of interest in connection with sales of Northwestern Mutual insurance products.

With respect to investment compensation paid by NMIS and/or NMWMC, the "grid" (which is described below) has several features that help to manage the conflicts of interest discussed below. Consistent with Northwestern Mutual's philosophy, the grid is intended to foster recommendations made in the client's best interest by encouraging holistic planning to meet both investment and insurance needs to help ensure financial security. The grid is prospective in nature—production in a given year establishes the compensation rate for the subsequent

year. In other words, an investment product sale I make during the current year will not impact the rate of grid compensation for any other investment product sales I make within this current year. The grid is also structured to primarily have gradual increases in the rate of compensation based on combined investment and Northwestern Mutual insurance production—most steps on the grid based on production are 5 percentage points or less which avoids disproportionately increasing compensation through incremental increases in sales.

With respect to non-cash compensation I receive (which is detailed below), there are a number of factors that help manage those conflicts. There are regulations at both the state and federal level that impose certain limits on non-cash compensation with respect to insurance and investment products. Northwestern Mutual does not allow local offices to run sales contests based on investment production (which includes variable products). It also has adopted policies and procedures for other local office non-cash compensation, including trips, that impose per advisor limits, education components, non-production criteria and supervision elements, depending upon the nature of the non-cash compensation. Northwestern Mutual's primary recognition event each year for representatives who qualify occurs in the United States, has a significant education component, and its cash equivalent value is not intended to be disproportional to a representative's total compensation. Further, noncompliance with state or federal rules and regulations, or company policies, can result in a representative's ineligibility to attend.

### **Compensation, Revenue and Related Conflicts**

Unless we have agreed that I will provide you with fee-based financial planning, I am compensated through various forms of commissions, fees, bonuses and benefits only when you "take action" by purchasing products and services. This is a conflict of interest because unless you purchase a product or service, I will not be compensated for the time I spend with you and the expertise that I provide to you. I have described for you above the significant efforts I and Northwestern Mutual undertake to mitigate this conflict. Below I describe the types of compensation I receive and Northwestern Mutual's related revenue.

### ***My Compensation for Northwestern Mutual Insurance Product Sales***

I am compensated by Northwestern Mutual for sales of its insurance products (including life insurance policies, annuity contracts, disability income policies and long-term care policies) through commissions, which are typically calculated as a percentage of the insurance premium/annuity considerations you pay. These commissions are typically paid to me in the

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Ratings as of: AM Best Company, A++ (highest), April 2019; Fitch Ratings, AAA (highest), May 2019; Moody's Investors

Service, Aaa (highest), May 2019; S&P Global Ratings, AA+ (second highest), June 2019.

form of first-year commissions (a percentage of the first-year premium/considerations paid by you), renewal commissions (a percentage of annual premiums paid in the second to tenth policy years by you), persistency fees (a percentage of annual premiums paid in the eleventh policy year onward by you) and for variable annuities (in lieu of renewal commissions and persistency fees) service fees (a percentage of considerations paid by you in the second contract year onward). For example, I would expect to receive approximately between 4% and 9% of the total premium paid on an NM whole life policy if the policy is kept in place for the average expected duration of that type of policy. Most of the commissions I receive upon the sale of a Northwestern Mutual policy or contract are paid in the first year. The rate of commissions I receive can vary by insurance product and other factors.

This transaction-based commission structure, which is a typical compensation structure in the insurance industry, is a conflict of interest because it rewards me for selling products to clients often and for selling insurance products that pay the highest rates of commission and that have relatively higher initial and ongoing premium payments associated with them. For example, if you have a life insurance need, I may recommend that you purchase a permanent life insurance policy, which provides unique advantages, guarantees and living benefits for clients not found in term insurance, which provides only temporary coverage. Because of those unique advantages, the initial premium payments for permanent life insurance are higher than the initial premium payments for a term policy with an equivalent death benefit, which means I will receive a larger commission if you purchase permanent life insurance instead of term life insurance. As described above, I take steps to manage this conflict (and similar conflicts) to ensure that my recommendations to you are aligned to your needs and in your best interest. It should also be noted that NM and its representatives are one of the largest sellers of term insurance in the country, demonstrating that we recognize that term insurance is in the best interest of many clients and that we appropriately manage this conflict.

There are other types of compensation and benefits that I am generally eligible to receive beyond the commissions described above for sales of Northwestern Mutual insurance products:

- **Cash Bonuses**—Qualification for cash bonuses are typically based on a Northwestern Mutual representative’s annual production. Cash Bonus targets and amounts vary. Representatives must meet minimum production requirements in order to be eligible for cash bonuses. Not all representatives will be eligible to receive a particular bonus.
- **Retirement and Healthcare Benefits**—Eligible representatives will earn credit toward Northwestern Mutual’s retirement plans based upon their annual insurance sales production. Eligible representatives

may also participate in Northwestern Mutual’s health and group life insurance plans.

- **Awards & Recognition**—Eligible representatives receive non-cash compensation in the form of honors and awards for annual insurance sales production (which at times may also include annual investment production). Northwestern Mutual provides incentives including, but not limited to, travel, gifts, prizes, awards, achievement recognition, preferential servicing and attendance at company-sponsored business meetings.
- **Expense Support**—Eligible representatives may qualify for expense allowances paid by their local office based on annual insurance sales production and local office requirements. Eligible representatives early in their career also receive extra commissions and incentives through training allowances and early productivity incentives paid by NM and local field management, which assists new representatives in becoming established in their career.
- **Local Incentive Programs**—Eligible representatives participate in local office incentive programs which (subject to limitations imposed by Northwestern Mutual that were described above) are based on insurance sales production and other factors. Incentives provided by the local offices can include, but are not limited to, trips with a business/education component and other non-cash incentives such as gifts, recognition events, and education and development services.

These additional incentives create a conflict of interest in that they further incentivize me to recommend and sell Northwestern Mutual insurance products, and to sell Northwestern Mutual insurance products instead of products issued by other insurance carriers.

Finally, as my level of Northwestern Mutual insurance sales increases, my placement on the “grid” (described below) improves, which increases how much I will be paid for my sales of investment products and advisory services. This structure incentivizes me to recommend and sell Northwestern Mutual insurance products to increase my investment compensation and is a conflict of interest. Northwestern Mutual has developed such a structure because it believes that most clients are best served in meeting their goals and aspirations and achieving financial security with a mix of insurance and investment products and therefore rewards those representatives who deliver both. Furthermore, as discussed above, structures, policies and procedures have also been put in place by Northwestern Mutual to mitigate the conflict of interest created by the grid.

If you have any questions regarding any aspect of the compensation and benefits I receive in connection with the sale

of Northwestern Mutual insurance products, or any other insurance carrier's products, please ask me for more information.

### ***My Compensation for Sales of Investment Products and Advisory Services***

As a registered representative of NMIS and as an advisor of NMWMC (if I am one), I receive a percentage of the investment brokerage commissions and/or advisory fees collected by NMIS and/or NMWMC, respectively, which are typically calculated as a percentage of (1) the amount you pay for an investment or non-NM variable product through NMIS as a broker-dealer or (2) the accumulated value of your advisory investments through NMWMC advisory programs and services. As my sales of investment products, advisory services, and Northwestern Mutual insurance products increase and reach certain sales production levels, NMIS and NMWMC incrementally increase the percentage of commissions and/or fees paid to me for sales of investment products and/or advisory services (but not Northwestern Mutual insurance products, for which I am compensated separately as described above).

The different sales production levels and increasing payout percentages tied to those production levels are known as a "grid," which is a typical compensation structure in the retail investment industry. The grid payout percentages range between 35% and 95% payable to me on most investment production, depending on the level of commissions, fees, and life insurance premium that I generated during the previous year. Therefore, my current grid level is set based on my sales production during the previous year and my current investment or insurance product recommendations cannot influence my grid rate for the current year. Once a grid rate is set for a year, it applies uniformly across investment product and services types. The ability to improve grid placement and thus my investment payout percentage in the following year incentivizes me to sell and service brokerage, advisory and Northwestern Mutual insurance products in the current year. If I have agreed to provide you with planning services for a fee, then the fee that you pay is not run through the grid and does not affect my grid placement or any other compensation and benefits described above. I receive a percentage of the fee that you pay to NMWMC for fee-based financial planning services.

The cost to you of brokerage products and advisory services varies among and within product types and advisory services. For example, similar mutual funds from different fund families may have share classes with different front-end loads. Within the same fund family, commissions can vary depending on the fund and the asset class (e.g., fixed income fund versus an equity fund). Typically, commissions on transactions in stocks or equity funds are higher than commissions on bonds or fixed income funds. Investment advisory fees are generally ongoing whereas the primary cost of some mutual fund share classes is

paid once up front. Over longer periods of time, the total compensation a representative could receive for mutual fund and annuity sales is typically higher than the compensation they would receive for exchange traded funds ("ETFs"), stocks and bonds, since mutual funds and annuities pay ongoing compensation and ETFs, stocks and bonds do not.

Some investment products are more expensive than others, and because I am paid on a commission and/or fee basis through the grid described above, this incentivizes the sale of more expensive products and services, which will have the effect of increasing my compensation and is a conflict of interest. For example, in an advisory relationship, you are paying for investment advice and receive significant additional services, such as ongoing account monitoring, rebalancing, and investment management, which means that over time, an advisory account typically will be more expensive than a brokerage account (which does not include all of these services). If I am an advisor of NMWMC, this compensation structure incentivizes me to establish advisory relationships over brokerage arrangements to increase my compensation over time. As discussed above, one way I manage this conflict is engaging in a discovery process with you to understand what your needs and aspirations are and what type of investment relationship and accounts you are seeking.

Typically, I receive ongoing compensation from NMIS based on the value of mutual funds that are held in brokerage accounts and based on the value of NM variable annuity products that I sell. However, I do not receive ongoing compensation on mutual fund sales to brokerage accounts that hold less than \$50,000 in assets. Because I do receive ongoing compensation on an NM variable annuity sale below \$50,000, but do not receive ongoing compensation on mutual fund investments below \$50,000, this provides an incentive to recommend an NM variable annuity product for purchases below \$50,000. This conflict of interest is mitigated by the conflict management steps described above.

I can only be compensated for sales of investment products and advisory services when you purchase them from or through NMIS and/or NMWMC. This obviously incentivizes me to recommend that (i) you continue to hold at or through NMIS and/or NMWMC any accounts that you currently hold at or through NMIS and/or NMWMC, and/or (ii) you transfer assets held in an account external to NMIS and/or NMWMC (e.g., in a retirement plan account) to NMIS and/or NMWMC through a rollover or account transfer. This conflict of interest is mitigated by my previously described conflict management approach.

If you ever have any questions or concerns about why I am recommending one product or service over another, please do not hesitate to ask me.

### **Revenue to Northwestern Mutual and its Affiliates**

As a manufacturer of insurance products, NM, and in some cases, its affiliates (e.g., Northwestern Mutual Series Fund, Inc., NM's proprietary mutual fund) receive revenue on every NM insurance product I sell. Northwestern Mutual is therefore incented to ensure I sell primarily NM insurance products. For additional details on payments made to NM and its affiliates, you should review the prospectus for any NM variable product that you are purchasing, if applicable.

In addition to the revenue NMIS and WMC receive from the sale of investment products and the rendering of investment advisory services, respectively, including brokerage commissions on general securities, sales loads on mutual funds sold through the broker-dealer, ongoing Rule 12b-1 or shareholder servicing fees paid by mutual funds to NMIS, and advisory fees received by NMWMC, NMIS receives significant additional revenue from certain mutual fund families and from its clearing firm, Pershing, LLC, when clients of NMIS or NMWMC invest in mutual funds issued by certain mutual fund families. This is commonly known as revenue sharing. NMIS also receives operational credit payments based on the volume of transactions on Pershing's platform and may receive payments from service providers such as Pershing to renew its respective service agreement with such providers. In addition, NMIS receives additional revenue when you hold the cash balances in your account in the NMIS Cash Sweep Program, including the Northwestern Mutual FDIC Insured Deposit Program, which is a proprietary product and the default cash sweep product for NMIS accounts.

Although my compensation is not materially affected by the revenue received by NMIS from third-parties, this is a firm-level conflict of interest because Northwestern Mutual and its affiliates receive a significant economic benefit when a client makes the above-described purchases or investments in these mutual funds or holds cash in the NMIS Cash Sweep Program.

For detailed information about these arrangements, including (i) how NMIS is compensated for the sale of mutual funds, and (ii) a list of the mutual fund families from which NMIS receives additional revenue, you should review Northwestern Mutual's brochure, *What Every Investor Should Know About Mutual Funds and ETFs*, which is regularly updated and available at: <https://www.northwesternmutual.com/assets/pdf/investing-disclosure/investor-know-about-mutual-funds.pdf>. That brochure also provides additional information on my compensation for the sale of mutual funds.

In connection with the sale of mutual funds and variable products, I will also provide you with the relevant prospectus, which you should review for additional disclosure with respect to costs, compensation, revenue and related conflicts of interest

specific to that fund or variable product. If I am an advisor of NMWMC and I recommend to you an NMWMC investment advisory program or service, I will also provide you with the applicable advisory program disclosure brochure which you should review for additional disclosure with respect to costs, compensation, revenue and related conflicts of interest specific to that advisory program. If you open up an account with NMIS and/or NMWMC, you will also enter into a Client General Account Agreement which you should review for additional disclosure with respect to costs, compensation, revenue and related conflicts of interest with respect to your account and underlying transactions.

I am happy to discuss further with you at your request any questions you may have about any information in this document.

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Life and disability insurance, annuities, and life insurance with long-term care benefits are issued by **The Northwestern Mutual Life Insurance Company**, Milwaukee WI (NM). Long-term care insurance is issued by **Northwestern Long Term Care Insurance Company**, Milwaukee, WI, a subsidiary of NM. Investment products are offered through **Northwestern Mutual Investment Services, LLC**, 1-866-664-7737, a dually registered broker-dealer and investment adviser and a wholly-owned company of NM, member FINRA and SIPC. NM Variable annuities and variable insurance are underwritten by NMIS. Fiduciary and fee-based planning services are offered through **Northwestern Mutual Wealth Management Company**, a limited purpose federal savings bank and a wholly owned company of NM. Investment products and trust services are not insured by the FDIC, and are not deposits or other obligations of, or guaranteed by NMWMC, NMIS or NM. All investments are subject to risk including the possible loss of principal invested.