

# K M S FINANCIAL SERVICES, INC.

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## Form ADV Part 2A Firm Brochure – 2016

This brochure provides information about the qualifications and business practices of KMS Financial Services, Inc. (“KMS”). This information has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state regulatory authority.

KMS is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training. Additional information about KMS is available at [www.kms.com](http://www.kms.com) and the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). If you have questions about the contents of this brochure, please contact us at (206) 441-2885.

**KMS Privacy Policy:** KMS recognizes the importance of protecting your privacy and has established policies designed to safeguard your confidential information. Key elements of those policies are as follows:

- **KMS does not sell your personal information to anyone; nor does KMS share your information with anyone** except as required or permitted by law or as implicitly authorized by you. Certain information may be shared with sponsors of financial products and services you select. For example, if you invest in a mutual fund through KMS, you may complete an application that KMS forwards to that fund company.
- **KMS receives information about you in the normal course of providing financial services.** This information is usually communicated to KMS by you or your Representative. If you or another financial institution (mutual fund, insurance company, clearing agent, or advisory firm) designate KMS as dealer of record for an account, that institution may provide KMS with related personal information.
- **KMS maintains physical, electronic, and procedural safeguards to protect your privacy.** Access to your personal information is restricted to those employees and agents who need the information to provide the products and services you have selected.

**KMS may permit your Representative to maintain access to your personal information** to facilitate continuity of effective service to you in the event your Representative chooses to affiliate with a firm *other than* KMS

### Item 2 – Material Changes

Since May 2016, KMS has made material and non-material changes to this Brochure. All changes are listed here for ease of reference and review.

Item 12 (Brokerage Practices) has been updated to include Cedar Capital Mutual Funds, IronHorse Capital Mutual Funds, Sierra Investment Management, Swan Global Investments and Weitz Investments in the Partner Program.

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#### **Item 4 – Advisory Business**

KMS, founded in 1971, is a Seattle-based, independently operated investment advisory firm registered with the SEC. KMS is also a securities broker-dealer registered with the SEC, the Financial Industry Regulatory Authority (“FINRA”), and all 50 states plus the District of Columbia and Guam.

KMS operates through supervised financial professionals who are investment advisory representatives and/or securities registered representatives. Registration does not imply any particular level of skill or training, although many KMS Representatives maintain related certifications and designations. Ladenburg Thalmann Financial Services Inc. (“LTFS”) owns 100% of KMS. LTFS is listed on the New York Stock Exchange under the symbol LTS. Dr. Phillip Frost and related entities, Gamma Trust and Nevada Trust are beneficial owners of over 25% of LTFS.

KMS Advisors are allowed to conduct their investment advisory activities under a separate unaffiliated business name or “DBA” (“doing business as”). Such Advisors are registered with KMS as investment advisory representatives and provide investment advice through KMS. KMS supervises the Advisors’ investment advisory activities. The names of such DBAs include but are not limited to: Capital Financial Planners, Delta Financial Group, Financial Resources, First Pacific Financial, Goodfunds Wealth Management, Joslin Capital Advisors, Martel Wealth Advisors, Martinson Stoller Advisors, Summit Advisors NW, Sustainable Wealth Management, and The O’Hagan Group. Fee agreements and marketing materials clearly disclose KMS as the Registered Investment Advisor clients are engaging for investment advisory services.

KMS offers a range of investment advisory services through multiple platforms and custody arrangements. Those services include financial planning, investment advice and asset management for fees based on a percentage of assets under management, as well as advisory services of a number of unaffiliated third-party investment advisors. KMS offers these products and services to the public through its investment advisory representatives (Hereinafter: “Advisor(s)” or “KMS Advisor(s)”).

Each KMS Advisor should provide his or her advisory Clients with details of the Advisor’s background in a 2B Brochure Supplement, which should be included herein. **If you have not received such 2B Brochure Supplement, please contact your Advisor or KMS.**

As of December 31, 2015, KMS had approximately \$3.864 billion of discretionary assets under management and approximately \$1.309 billion of non-discretionary assets under management for a total of approximately \$5.173 billion assets under management.

If a KMS Advisor offers investment advice for a fee, that Advisor may tailor the advisory services he or she offers to the individual requests of specific Clients. For example, Clients may request that certain securities or types of securities be avoided. If it is difficult to determine all of the underlying securities of a particular advisory product or service, the Advisor will make reasonable efforts to avoid the specified securities or type of securities.

**Wrap Fee Program:** KMS does *not* perform portfolio management services as part of *other* sponsors’ wrap fee programs. Through its Advisors, KMS *does* provide portfolio management services under a “wrap fee” structure, i.e., a single fee which covers certain transaction costs as well as portfolio management services and advice. Generally the portfolio management services under the KMS Wrap Fee Program are similar to other KMS portfolio management services under different fee structures. Several factors should be evaluated when considering a KMS Wrap Fee program account including, but not limited to: account size; anticipated account trading volume; management style;

investment goals; and client preference for a portfolio management program which includes transaction charges. There are no commissions charged in KMS' Wrap Fee program; however, the Program charges a 25 basis point (0.25% per year) administrative retention (platform) fee that is paid from (i.e., out of) the advisory fee collected from Wrap Fee accounts. This does not increase your advisory fee (but please note that wrap accounts typically have a higher standard fee schedule than non-wrap accounts due to the decreased portion of the fee that is shared with your KMS Advisor). KMS receives a portion of the platform fee. KMS' Wrap Fee program brochure is available through KMS or your Advisor.

**Financial Planning and Consulting Services:** KMS Advisors may offer **Financial Planning Services**, which may include collecting financial data, developing income and net worth statements, estate analysis, estate tax calculations, income tax analysis, investment analysis and general recommendations, and preparing a formal financial plan. KMS Advisors may provide occasional personal income or estate tax planning ideas which should be reviewed and implemented by your independent tax professional(s). Services are offered under an Advisory Agreement – Financial Consulting.

KMS Advisors may provide **Retirement Plan Consulting** by helping Clients in establishing new or converting existing retirement plans or accounts, recommending or selecting investments to be made available to plan participants, providing participant or fiduciary education, assisting in service provider evaluation or benchmarking, or providing performance reports and other performance related information. Retirement plans are usually participant-directed, but in some situations KMS Advisors are granted trading authority in the advisory contract. Services are offered under an Advisory Agreement – Financial Consulting or Retirement Plan Advisory Agreement.

**Advisor Asset Management Services:** KMS Advisors may offer **Portfolio Monitoring and Consulting Services** by monitoring a Client's account holdings, providing ongoing investment recommendations and advice, and asset management through discretionary or nondiscretionary trade placement consistent with the Client's investment objective, as declared in the advisory agreement. **There is no guarantee that the recommendations or trades will meet a Client's investment objective over any given time frame.** Advisor will deliver to the Client performance report(s) on the schedule specified in the advisory agreement. Accounts may be held at the following custodians: Pershing LLC, Charles Schwab & Co., Inc. ("Schwab"), Fidelity Institutional Wealth Services ("Fidelity"), or TD Ameritrade, Inc. ("TD Ameritrade"). The custodian provides account statements directly to the Client. KMS urges Clients to promptly review all such account information.

Accounts may be traded on a discretionary or nondiscretionary basis, as specified in the advisory contract. Accounts will incur transaction fees which will vary depending upon the type of investment and the custodian. For assets held at Schwab, the client transaction fee schedule available is based on your Advisor's aggregate assets under management at Schwab. Services are offered under an Asset Management Advisory Agreement.

**KMS as SubAdvisor to other Registered Investment Advisors:** On occasion KMS may be engaged to provide SubAdvisor investment advisory services, research and advice to another Registered Investment Advisor ("RIA"). In such event, that RIA's clients will be engaged by such independent RIA through its own client advisory services agreement and KMS is engaged by the independent RIA only.

**Tactical Monitoring** is a service offered by a few KMS Advisors that sets objectives-driven asset allocation models in specified variable annuity sub-accounts, variable life sub-accounts, unit investment trusts ("UITs"), exchange-traded funds ("ETFs") and/or mutual funds. Other compensation or commissions may accompany those products and the advisory fees are negotiated in anticipation of that compensation. Percentage allocations in the models may change due to intervening market movements and/or authorized exchanges, but remain consistent with the guideline investment objective. Tactical Monitoring combines Advisor's subjective review, control, and implementation of analyses provided by AdvisorGuide, an independent and unaffiliated entity that measures daily price movements of portfolio securities and/or other research services. Advisor will deliver performance report(s) to the Client on the schedule specified by the Client in the advisory agreement. The custodian of accounts under Tactical Monitoring will provide account statements directly to the Client. Services are offered under an Asset Management Advisory Agreement.

Assets with **Schwab Managed Account *Select* Program** are charged a program fee (Wrap Program) as detailed in the Schwab Managed Account Select application and agreement. Assets with **Schwab Managed Account *Marketplace* Program** are charged separately by Schwab for brokerage and custody services, and by the Money Manager as detailed in the Advisory Agreements. In both programs a separate fee is charged by KMS for portfolio monitoring and consulting. With written notice, Clients may terminate these contracts at any time. Services are offered under Advisory Services Agreement/Schwab Managed Account Program.

Assets with **TD Ameritrade Institutional Managed Account Placemark Programs** are charged a program fee as detailed in the TD Ameritrade Placemark application and agreement. Accounts may be managed through a variety of investment options which are selected by the Client based on their investment objectives, time horizon, income needs and risk tolerance. Assets with TD Ameritrade Managed Account Placemark Program are charged separately by TD Ameritrade for brokerage and custody services and by the Money Manager through Placemark as detailed in the Advisory Agreements. For this program a separate fee is charged by KMS for portfolio monitoring and consulting. With written notice Clients may terminate these contracts at any time. Services are offered under Advisory Services Agreement/Placemark Account Program.

**SubAdvisors:** KMS has agreements with other Registered Investment Advisors to provide KMS Clients with investment advisory services, research, and advice. KMS remains the Client relationship manager and investment advisor, and shares fees with the SubAdvisor. Services are offered through the appropriate KMS advisory agreement. SubAdvisors generally manage such accounts on a discretionary basis. Clients under SubAdvisor relationships receive statements from the various custodians who hold the accounts as well as reports from the SubAdvisor.

KMS offers SubAdvisor services through Raymond James & Associates, Inc., SEI Trust Co., SNW Asset Management, LLC, Lesa Sroufe & Co., Inc., and Runde & Co. Clients entering into a SubAdvisor relationship through KMS should receive the SubAdvisor's Brochure. KMS encourages Clients to thoroughly review these documents. Clients may also review information on the SubAdvisors via the SEC's web site, [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

**Affiliated Products and Services:** Certain products and services of affiliates are available through KMS.

**Alternative Strategies Fund:** Ladenburg Thalmann Asset Management ("LTAM") is the investment adviser to the Alternative Strategies Fund (LTAFX, LTCFX). The Alternative Strategies Fund ("the Fund") is a closed end interval fund that incorporates quality alternative products and allows Clients to access these investments with lower minimums and no accreditation. The Fund's investment objective is to seek attractive risk-adjusted returns with low to moderate volatility and low correlation to the broader markets through a concentrated multi-strategy alternative investment approach with an emphasis on income generation. Ladenburg Thalmann & Co. Inc. ("LTCO") is also the distributor of the Fund and may receive commissions when executing trades on behalf of the Fund.

The Fund is comprised of a diversified portfolio of alternative investments in more than ten asset classes, including real estate investment trusts (REITs), master limited partnerships (MLPs), managed futures, equipment leasing, among others. For information about the material risks associated with the Fund's investment strategies and other disclosures, see the Fund's prospectus. Prospectuses are available at [www.ltafx.com](http://www.ltafx.com) or by contacting the Fund administrator at (877) 803-6583.

### **Ladenburg Funds**

LTAM is the investment adviser to five funds collectively called the "Ladenburg Funds." The five Ladenburg Funds are Ladenburg Income Fund, Ladenburg Income & Growth Fund, Ladenburg Growth & Income Fund, Ladenburg Growth Fund, and the Ladenburg Aggressive Growth Fund. Each of the Ladenburg Funds is an open end fund of funds that primarily invests in a combination of equity, fixed income and alternative strategy exchange traded funds ("ETFs"), exchange traded notes ("ETNs") and mutual funds (together, "Underlying Funds" or "Fund(s)"). The Funds employ the same investment strategies and features as the ones LTAM employs in managing separate client accounts in in the Ladenburg Asset Management Program ("LAMP").

Each Fund will have substantially the same investment objective, policies and strategies as its corresponding separate account strategy. The Funds' fees may be more or less than the fees and expenses associated with the separate accounts managed by LTAM in LAMP. The Funds' results will differ from that of the separate accounts in LAMP managed in a similar strategy because of differences in future behavior of the various investment markets, brokerage commissions, account expenses, the size of positions taken in relation to account size and diversification of securities, and the timing of purchases and sales, among other things. The Ladenburg Funds offer A, C, and I share classes in each Fund. Ladenburg Thalmann & Co. Inc. is the distributor of the Funds and may also receive commissions when executing trades on behalf of the Funds. There may be a conflict of interest when LTAM or its affiliates recommend any of the Ladenburg Funds.

Information about the Ladenburg Funds and the services LTAM provides to them can be found in Funds' prospectus. Prospectuses are available at [www.ladenburgfunds.com](http://www.ladenburgfunds.com) or by contacting the fund administrator at (877) 803-6583.

**Ladenburg American Funds® Core Portfolios:** LTAM's Ladenburg Asset Management Program ("LAMP") manages the Ladenburg American Funds® Core Portfolios. Accounts utilizing these strategies will have a target allocation of 63% American Funds mutual funds, 35% Ladenburg mutual funds and 2% in cash. LTAM will evaluate the portfolios for rebalancing back to the target allocation at least annually or based on extreme market conditions. The mutual funds that are selected for these strategies are within the universe of American Funds mutual funds and based on due diligence conducted by LTAM on a variety of performance measures. LTAM periodically reviews each strategy to remove or replace those mutual funds that no longer meet the qualifications necessary for inclusion in the strategies. Because fund expenses will vary, what clients pay will not, and LTAM controls the allocation to the mutual funds and rebalancing used within the strategy, this represents a conflict of interest. KMS monitors and addresses this conflict of interest through client disclosure and ongoing account monitoring.

**Boyar Value Fund:** LTAM owns 50% of Ladenburg Thalmann Fund Management who is the manager of the Boyar Value Fund (BOYAX) which is advised by Boyar Asset Management. Ladenburg Thalmann & Co. Inc. is also the distributor of the fund and may receive commissions when executing trades on behalf of the fund and there is a conflict of interest when LTAM or its affiliates recommend the fund.

**Ladenburg Thalmann High Income Portfolio (Unit Investment Trust):** LTAM provides a recommended list of securities to First Trust Portfolios, L.P. (First Trust), the sponsor of the Ladenburg Thalmann High Income Portfolio, a unit investment trust (UIT). The UIT's objective emphasizes income generation through non-traditional yield sources such as REITs, business development companies (BDCs), and MLPs. The portfolio is made up of individual securities, closed end funds, exchange traded funds (ETFs) and/or BDCs.

**The Ladenburg Total Portfolio Series (Collective Investment Trusts):** LTAM is the investment adviser to The Ladenburg Thalmann Total Portfolio Series which is a series of collective investment trusts ("CITs"). The CITs are a series of five portfolios established for qualified retirement plans, such as 401(k) plans and profit sharing plans. The portfolios are generally comprised of ETFs which closely mimic LTAM's traditional LAMP ETF models. The CITs are maintained by a bank trust, and are offered in two share classes, Advisory and Investor.

**LTAM Sponsored Programs:** LTAM also provides advisory services through several LTAM-sponsored programs, including: Ladenburg Asset Management Program ("LAMP"), the Investment Consulting Services ("ICS") Program, and Plan Sponsor and Plan Participant Services. Under these programs, Clients generally pay a single fee that covers both advisory services provided by LTAM and brokerage services provided by its affiliated broker-dealers. KMS, as broker-dealer, receives a portion of the wrap fee, as does KMS Advisor servicing the account. As described above in the section "Ladenburg American Funds® Core Portfolios," LTAM utilizes Ladenburg Funds within this strategy which represents a conflict of interest. KMS monitors and addresses this conflict of interest through client disclosure and ongoing account monitoring.

### **LTAM SYMBIL Solicitor Program**

In exchange for referring clients to the SYMBIL service, LTAM may pay a fee to individuals who are associated with one of LTAM's affiliated broker-dealers or registered investment advisors. In some cases, the recipient of a referral fee may also be an LTAM-affiliated investment adviser or an independent investment adviser or an individual associated with an affiliated or independent investment adviser. Such fees, which are payable only where a referred client chooses to invest in one of the recommended Ladenburg Funds, are a portion of the fee LTAM receives for managing the chosen Fund. In some cases, the referral fee is paid through the solicitor's registered broker-dealer or registered investment adviser. The referral fee arrangement between LTAM and the affiliated solicitor will be disclosed to the client upon entering the SYMBIL website.

**Third Party Advisors:** Third Party Advisors provide various services described in their marketing materials and contracts. A KMS Advisor may recommend a Third Party Advisor and/or may recommend a particular investment objective or category offered by that Third Party Advisor. In most Third Party Advisor programs the KMS Advisor acts as a solicitor and works directly with the Client to select and monitor the desired services. The Third Party Advisor will provide money management services and reporting. Clients receive statements from the various custodians who hold their account(s). Clients entering into a Third Party Advisor relationship through KMS should receive the Third Party Advisor's Brochure. KMS encourages Clients to review these documents. Clients may also learn more about the Third Party Advisor via the SEC's web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

### **Item 5 – Fees and Compensation**

In the course of providing advisory services to Clients, KMS and Advisor receive advisory fees as described in the relevant advisory contract. LTFS and/or KMS may receive additional compensation as described in Sections 12 and 14.

**Financial Planning and Consulting Services Fees** are charged as an hourly fee, project fee or ongoing annual consulting fee depending upon the complexity of the Client's financial situation or the level of services desired. Fees may be partially or fully payable in advance, with the balance payable upon delivery of the plan (if applicable) or completion of the agreed service(s). Fees are negotiable depending upon services offered by Advisor.

**Retirement Plan Consulting Fees** are negotiable depending upon services offered by the Advisor. Fees are payable as described in the relevant advisory agreement. With written notice, Clients may terminate the advisory agreement at any time and receive a full pro-rata refund of unearned fees.

**KMS Advisor Asset Management Services Fees** are generally based at or below the following schedule. Rates may be negotiated:

#### **Portfolio Monitoring and Consulting Services**

<u>Portfolio Assets Valued At:</u>	<u>Annualized Fee</u>
On the first \$100,000	1.75%
On the next \$150,000	1.50%
On the next \$250,000	1.25%
On the next \$500,000	1.00%
On amounts over \$1,000,000	0.75%

Portfolio Monitoring and Consulting fees are generally calculated and payable quarterly, in advance, based on the portfolio value as of the last business day of the prior time period. Some contracts call for different billing cycles (monthly, semi-annually or annually) and/or charge in arrears, that is, at the end of the billing cycle. KMS will deduct the fee from the account or, depending upon the custodial platform, the Client may be issued an invoice and remit check payment. With written notice, Clients may terminate these contracts at any time and receive a full pro-rata refund of unearned fees. Fees are negotiable and may be higher or lower than the standard schedule depending upon services provided by Advisor. Individual Advisors may impose a minimum account size and/or minimum fee. Services are offered under an Asset Management Advisory Agreement.

KMS and Advisors charge investment advisory fees to manage assets as detailed in investment advisory agreements. KMS Advisors will recommend and purchase mutual funds in advisory accounts. To the extent Clients own mutual funds, Clients will incur advisory fees along with those advisory fees borne by the mutual fund. Clients also incur brokerage and transaction costs, in addition to any advisory fee, unless a wrap account is chosen. (Please also see Item 12, discussing brokerage practices.) Information on brokerage and transaction costs is made available by each custodian (broker-dealer). For advisory accounts held at Schwab, TD Ameritrade or Fidelity, KMS is not the broker-dealer and neither KMS nor Advisor receives 12b-1 fees (“Trails”) or any portion of commissions or transaction charges for accounts custodied with Schwab, TD Ameritrade, or Fidelity. However, KMS and LTFS may receive marketing allowances and revenue sharing from Strategic Partner mutual fund companies. These amounts are not shared with the KMS Advisor making recommendations or managing the account, but in some cases may reduce transaction charges to clients for accounts held with KMS as the broker-dealer.

As noted above, KMS Advisors offer investment advisory accounts custodied at three other broker dealers: Schwab, TD Ameritrade and Fidelity. Some mutual funds pay Trails and some do not. For KMS advisory accounts held at Schwab, TD and Fidelity, KMS does not earn any Trails from any funds that pay such fees to the broker-dealer on the account. However, KMS and Advisors will earn Trails for advisory accounts held at Pershing which constitutes a conflict of interest since it creates a potential incentive for KMS and Advisor to select Pershing as the custodian for its advisory accounts. Generally, if the same mutual fund offers different share classes, the fund that does not pay Trails offers lower expenses which means a more advantageous return to the shareholder. KMS Advisors will recommend in some, but not all cases, mutual funds that pay Trails to the broker-dealer on the account. Trails, generally 0.25% (annually) of the mutual fund value paid quarterly, can be higher or lower depending upon the specific mutual fund company, share class, or trading platform. To the extent Clients own Trail-paying mutual funds, Clients bear the costs of such Trails (through the net asset value of the mutual fund) and KMS and Advisors receive the Trail revenue that accrues, if any. KMS monitors and addresses this conflict of interest in a variety of ways: through Client disclosure, initial limitations on the standard advisory fee schedule or negotiating lower fees, payment of Trails to Client accounts, providing additional discounts, and/or reducing advisory fees by Trails received. Clients can also choose to purchase recommended securities through other broker-dealers or agents.

When providing Portfolio Monitoring and Consulting for ERISA plan accounts, KMS reduces the advisory fee by any Trails received, credits such amounts back to the account, or considers the Trails received when calculating the advisory fee due.

**KMS as SubAdvisor to Other Registered Investment Advisors:** In the event that KMS is engaged to provide SubAdvisor investment advisory services, research and/or advice to an independent Registered Investment Advisor (“RIA”), KMS will receive compensation based on a percentage of the assets under management for which KMS is providing advisory services, payable quarterly in advance. Clients of the independent RIA receiving KMS SubAdvisor advisory services which terminate the services of the independent RIA will receive a pro-rata refund of unearned fees through a refund to the independent RIA.

#### **Tactical Monitoring Services Fee Schedule**

<u>Portfolio Assets Valued At:</u>	<u>Annualized Fee (at or below)</u>
On the first \$250,000	1.00%
On the next \$250,000	0.75%
On amounts over \$500,000	0.50%

Tactical Monitoring Service Fees are calculated and payable quarterly, semi-annually, or annually in advance, based on portfolio value as of the last business day of the prior time period. With written notice, Clients may terminate the service and receive a pro-rata refund of any unearned portion of fees paid. Client and Advisor may agree to an adjustment in the above fee schedule, contemplating the conflict of interest associated with any expected Trails or other disclosed compensation, which could be as high as 1% per year. Services are offered under a Tactical Monitoring Advisory Services Agreement or Asset Management Advisory Agreement.

**SubAdvisor Fees:** In addition to the KMS fee arrangement, SubAdvisors charge separate fees for the services provided. The fee schedules for each SubAdvisor are detailed below. Fees are calculated and payable quarterly either in advance or in arrears, based on the portfolio value as of the last business day of the prior time period. With written notice, Clients may terminate these contracts at any time and receive a full pro-rata refund of unearned fees. Client and Advisor may agree to an adjustment in the fee schedules detailed below.

**Raymond James & Associates, Inc. (Asset Management Advisory Agreement) \***

<u>Portfolio Assets Valued At:</u>	<u>Annualized Fee</u>	
On the first \$1,000,000	1.60%	* Accounts are held at Pershing
On the next \$1,500,000	1.20%	
On amounts over \$2,500,000	0.80%	

**SEI Investments Asset Allocation Portfolios (Asset Mgmt. Adv. Agreement–SEI Asset Allocation)\***

<u>Portfolio Assets Valued At:</u>	<u>Annualized Fee</u>	
On the first \$250,000	1.50%	* Accounts are held at
On the next \$250,000	1.25%	SEI Trust Company
On the next \$500,000	1.00%	
On the next \$1,000,000	0.75%	
On amounts over \$2 million	0.50%	

**SNW Asset Management, LLC (Asset Management Advisory Agreement)**

0.30% if the account has less than \$2,500,000, 0.25% if the account has more than \$2,500,000.

If an account has more than \$50,000,000 assets under management, the fee is negotiable.

Accounts are held at Pershing or at Schwab.

**Les Sroufe & Co. (Asset Mgmt. Advisory Agreement, Client Service & Referral Agreement) \***

<u>Portfolio Assets Valued At:</u>	<u>Annualized Fee</u>	
On the first \$100,000	1.75%	* Accounts may be held at
On the next \$150,000	1.50%	Pershing or Schwab
On the next \$250,000	1.25%	
On the next \$500,000	1.00%	
On amounts over \$1 million	0.75%	

**Runde & Co. (Asset Management Advisory Agreement)**

0.50% on the portfolio assets valued on the last business day of the prior quarter. This rate may be subject to a minimum annual fee of \$2,500.

**Affiliated Product Fees (12b-1, Affiliated Products and Principal Transactions):** Most KMS Advisors are also securities Registered Representatives of KMS. KMS may share a portion of payments received from a mutual fund, UIT, CIT, or in connection with an initial public offering, a secondary offering, and/or a private placement with KMS Advisors. KMS and KMS Advisors may also receive compensation, such as 12b-1 or services fees, in connection with the sale of funds or investments, including those managed by a KMS Affiliate, such as the Alternative Strategies Fund, Boyar Fund, Ladenburg Total Portfolio Series CITs, and Ladenburg High Income Portfolio UIT. Therefore, KMS and KMS Advisors have an incentive to recommend these securities, which constitutes a conflict of interest. This conflict of interest is heightened when KMS Advisors recommend securities where LTCO acts as underwriter because the Advisor typically receives more compensation in connection with these securities than in connection with other types of securities. KMS Advisors may also have a heightened conflict of interest when recommending funds, CITs, and UITs that pay compensation, including the Alternative Strategies Fund, Boyar Value Fund, the Ladenburg Total Portfolio Series (CIT), or Ladenburg Thalmann High Income Portfolio UIT.

- **Fund Management:** The Alternative Strategies Fund pays LTAM a management fee quarterly in arrears which are equal to a maximum of 0.75% per annum of the assets in the fund. The Ladenburg Funds pay LTAM a management fee monthly in arrears, which is equal to a maximum of 0.50% per annum of the assets of the Fund. For more information, see the Funds' prospectuses.



- **CIT Management:** The Ladenburg Total Portfolio Series pays LTAM an investment management fee monthly in arrears which is equal to a maximum of 0.30% per annum of the assets in the CITs.
- **Ladenburg Thalmann High Income Portfolio (UIT):** In addition, KMS, as a broker-dealer affiliated with LTAM, and KMS Advisors, will receive a portion of a dealer concession or agency commission in connection with units of the Ladenburg Thalmann High Income Portfolio UIT that they sell, if those units are subject to a sales charge. A higher concession percentage will be received by KMS if certain total sales levels of the UIT are met, as set forth in the UIT prospectus. Although, KMS will not receive a concession on the sale of UIT units to KMS advisory accounts because the sales are not subject to a sales charge, units sold to advisory accounts will count towards these sales levels. Thus, KMS has a conflict of interest in recommending sales of the UIT. For a license to use the Ladenburg name and for providing a list of securities, LTAM receives a licensing fee of 0.10% per annum, which is based on assets raised within Ladenburg Thalmann High Income Portfolio (UIT) during the offering period.
- **Principal Transactions:** Clients may purchase securities through KMS in initial public offerings, and/or secondary offerings ("new issues"). If LTCO acts as an underwriter or manager or as a member of the selling group for such offerings, it will receive compensation equal to either all or a portion of "gross spread" (the difference between the price the Client pays for the security and the price at which LTCO purchased the securities). The advisory fee is not reduced to offset this new issue securities compensation. The amount of the gross spread is described in the relevant prospectus, offering circular or official statement.

Certain securities, such as over-the-counter stocks and fixed income securities are traded primarily in "dealer" markets. In such markets, securities are directly purchased from, or sold to, a financial institution acting as a dealer, or "principal." Dealers executing principal trades typically include a "mark-up," "mark-down," and/or spread in the net price at which transactions are executed. When KMS executes a transaction for a security traded in the dealer markets, KMS either will execute the transaction as agent through a dealer unaffiliated with KMS, or as principal in accordance with applicable law. In addition to any applicable commission or transaction fee, the Client will bear the cost (including any mark-up, mark-down, and/or spread) imposed by the dealer as part of the price of the security. Thus, KMS will receive compensation in connection with most principal trades. KMS Advisors have a conflict of interest in using KMS to execute principal transactions because KMS and the Advisor will receive compensation in connection with the trade as dealer.

- **Affiliate Broker-Dealer or Advisory Fee Share:** KMS may receive a portion of the fee for supervision and administrative services, if a KMS Advisor is providing consulting services through an affiliate Wrap Program. If the broker-dealer for the account is KMS, KMS will also receive a portion of the affiliate Wrap Fee for the execution of transactions and generally pays part of its execution costs imposed by the custodian.

**Third Party Advisor Fees:** Third Party Advisors' fee schedules vary and are published in their own contracts and disclosure documents, including their respective Form ADV Part 2A Brochures. Fees are calculated and payable quarterly, either in advance or in arrears, depending upon the Third Party Advisor. With written notice Clients may terminate these contracts at any time, and, if fees were paid in advance, receive a pro-rata refund of any unearned portion. Depending on the Third Party Advisor, fees may be negotiable within pre-established limits.

## **Item 6 – Performance-Based Fees and Side-By-Side Management**

KMS does not have any performance-based fee structures or side-by-side management offered directly by KMS Advisors. However, some Third Party Advisors available through KMS may offer performance-based fee structures as disclosed in their ADV and agreements. In situations where KMS receives a portion of the asset management fee as disclosed in a solicitor arrangement, to the extent they include performance-based fees earned by the Third Party Advisor, KMS would be indirectly participating in performance-based fees. Information regarding any potential conflict of interest by offering performance-based fees is available in the Third Party Advisor's Brochure.

## **Item 7 – Types of Clients**

KMS Advisors provide advisory services and investment advice to individuals, pension and profit sharing plans, trusts, estates, charitable organizations, businesses and government entities. ERISA Plan Clients are provided with disclosure documents, which provide information about KMS' qualifications, business practices and potential conflicts of interest that may be important for any ERISA Plan to consider. If you are a Named Fiduciary for an ERISA Plan and you have not received such disclosure documents, please contact your Advisor or KMS.

## **Item 8 – Methods of Analysis, Investment Strategies, and Risk of Loss**

**Methods of Analysis & Investment Strategies:** KMS Advisors may use various methods to determine an appropriate investment strategy for Client accounts. During a Client's initial and subsequent interactions, the Advisor will discuss the methods and strategies he or she uses or can use given various investment objectives. These methods and strategies are formulated by the Advisors and not by KMS at the firm (home office) level. The analysis to be performed may include the following:

**Fundamental Analysis:** involves analyzing individual companies and their industry groups, reviewing earnings, financial statements, and the quality of a company's management. These factors are used to determine, along with the price of the stock, the relative value, strength and position of the company. See the general types of investment risk below.

**Asset Allocation:** Asset allocation investment strategies attempt to optimize the risk and reward profile of a portfolio (based on prior performance over various time frames) by investing among several asset classes. In addition to the general types of investment risks discussed below, this strategy is based on past performance, which is not indicative of future results.

**Timing Services:** Some KMS Advisors offer advisory services that attempt to time movements of various markets or investments. The intent with these strategies is to capture most if not all of a market upside while avoiding most if not all of a market downside. These objectives may not be achieved; in fact, over any given time period, performance may be less advantageous than staying fully invested or staying out of the markets completely. Many mutual funds and variable annuities prohibit excessive buying and selling within their account during a specified time period, which can affect the execution and performance of a strategy.

**Technical Analysis:** involves the study of price patterns and trends in the prices of securities (or index of securities) to attempt to predict future price trends. Factors such as trading volume, demand, and security price fluctuations may be considered. Past trends and patterns may not actually be indicative of future results.

**Cyclical Analysis:** this is a type of technical analysis that involves evaluating recurring price patterns and trends.

**General Types of Investment Risk:** Investing in securities involves risk of loss that you should be prepared to bear. All investment programs have certain risks that are borne by the investor. Investors face the following risks:

**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 (stock, bond, mutual fund, etc.) 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 or social conditions may trigger market events.

**Inflation Risk:** When inflation is present, a dollar today will not buy as much as a dollar next year because the purchasing power is eroded.

**Currency Risk:** Overseas investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This risk is also sometimes referred to as "exchange rate risk."

**Reinvestment Risk:** This is the risk that future distributions (or liquidation proceeds) from investments may have to be invested at a potentially lower rate of return. This risk primarily relates to fixed income investments (bonds), which might need to be reinvested at lower interest rate than the initial investment.

**Business Risk:** These risks are associated with a particular industry or particular company within an industry. For example, automobile companies are generally all subject to the same business risks that confront their industry.

**Concentrated Investment Risk:** Certain investment strategies may be concentrated in a specific sector or industry or individual security. If you invest in a portfolio or strategy that is made up of a concentrated position, sector or industry, your portfolio will be more likely to sharply increase or decrease in value with changes in the markets. Concentrated strategies are typically more volatile because the risk associated with each security represents a large percentage of your overall portfolio.

**Item 9 – Disciplinary Information**

Registered investment advisors are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of KMS or the integrity of KMS’ management personnel. No events have occurred at KMS that are applicable to this Item.

**Item 10 – Other Financial Industry Activities and Affiliations**

KMS is also a securities broker-dealer and as such sells securities products and services. Many KMS Advisors are also licensed with KMS as securities Registered Representatives, which allows them to provide brokerage services to Clients by executing securities transactions. KMS Advisors may also be licensed insurance agents appointed with various insurance companies. In their capacities as Registered Representatives and/or licensed insurance agents, KMS Advisors may offer securities and insurance products and will receive compensation as a result of such transactions or services. This presents a conflict of interest because they have an interest in earning commissions that may be adverse to your interests. KMS monitors this conflict of interest through its broker-dealer supervisory and compliance review system.

KMS is a wholly owned subsidiary of Ladenburg Thalmann Financial Services Inc. (“LTFS”). As such, KMS may execute trades on behalf of Clients who receive advisory services from LTAM. KMS receives compensation for these brokerage services.

Other companies that are owned by LTFS and thus affiliated with KMS are:

Ladenburg Thalmann Fund Management, LLC (LTFM)	50% owned by LTAM
Ladenburg Thalmann & Co. Inc. (LTCO)	100% owned by LTFS
Ladenburg Capital Agency Inc.	100% owned by LTFS
Triad Advisors, Inc.	100% owned by LTFS
Triad Hybrid Solutions, LLC	100% owned by LTFS
Investacorp, Inc.	100% owned by LTFS
Investacorp Advisory Services	100% owned by LTFS
Premier Trust, Inc.	100% owned by LTFS
Securities America Financial Corporation (SAFC)	100% owned by LTFS
Securities America, Inc.	100% owned by SAFC
Securities America Advisors, Inc.	100% owned by SAFC
Arbor Point Advisors, LLC	80% owned by SAFC
Securities Service Network, Inc. (SSN)	100% owned by LTFS
SSN Advisory, Inc.	100% owned by SSN
HCHC Acquisition, Inc. (HCHC)	100% owned by LTFS
Highland Capital Brokerage, Inc.	100% owned by HCHC

KMS Advisors may recommend Premier Trust to provide trust and administrative services. Premier Trust provides full disclosure with respect to its trust and administrative services and related costs. KMS will receive 10% of the trust and administration fees Clients pay to Premier Trust for trust administration services. Receipt of this revenue by KMS,

who will share it with KMS Advisors, constitutes a conflict of interest. Clients are not obligated to use Premier Trust for trust administration services.

KMS' affiliate, LTAM, owns 50% of Ladenburg Thalmann Fund Management, LLC, ("LTFM"), which is a registered investment adviser. LTFM is an adviser to an open-end registered investment company, the Boyar Value Fund, Inc. This fund is an open-end diversified management investment company. LTAM is the distributor of the fund. KMS Advisors may recommend Clients invest in the Boyar Value Fund or in the Alternative Strategies Fund and Ladenburg Funds, for which LTAM acts as investment adviser, and LTAM acts as distributor. KMS Advisors may recommend the Ladenburg Thalmann High Income Portfolio or the Ladenburg Total Portfolio Series. If a Client purchases such securities, LTAM and KMS will receive compensation, which constitutes a conflict of interest.

As described in Item 4 (Advisory Business), LTAM manages Ladenburg American Funds® Core Portfolios which include a target allocation of 35% to affiliated mutual funds for tactical asset allocation purposes. LTAM, the manager of the Ladenburg Funds, does not receive any portion of the Wrap Fee. However, LTAM receives an internal management fee from the funds. LTAM is not affiliated with the American Funds.

KMS Advisors may also operate companies or offer services independent of KMS. These unaffiliated companies or services may include other investment advisory firms, accounting or tax practices, insurance services, pension consulting services, and legal services, among others. These independent products or services can create conflicts of interest insofar as they may create incentives for Advisors to recommend those products or services. KMS routinely reviews these "outside businesses" and also mitigates this conflict through Client disclosure. Clients should discuss these potential conflicts of interests with their Advisor to determine if an advisory relationship is appropriate, given their particular situation. Also, please note that KMS as an RIA has a material conflict of interest in using itself as Broker-Dealer. Please also see Items 4, 5, 12 and 14.

Neither KMS nor any of its management personnel is registered as a futures commission merchant, commodity pool operator, commodity trading advisor, or associated person of such entities.

### **Item 11 – Code of Ethics and Personal Trading**

Like any SEC-registered investment adviser, KMS maintains an Investment Advisory Code of Ethics based on KMS' fundamental duty to place the interest of our Clients first at all times. KMS Advisors acknowledge in writing that they will follow KMS' Code of Ethics. For a copy of the Code of Ethics, please contact KMS or your Advisor.

#### **In summary, KMS' Code of Ethics requires Advisors to:**

- (1) follow ethical standards of conduct, which includes providing investment advice that is consistent with your stated investment objectives, financial needs and circumstances;
- (2) safeguard your confidential information;
- (3) not engage in fraudulent, deceptive or manipulative conduct;
- (4) not recommend a securities transaction without disclosing significant conflicts of interests;
- (5) comply with certain trading policies on Personal Securities Transactions, which, in general: (a) prohibit an Advisor from trading a security before a Client; and (b) prohibit an Advisor from opening or having a personal securities trading account without prior written KMS approval;
- (6) not act on or distribute material, nonpublic information; and
- (7) not participate in an initial public offering or private placement without KMS' prior written approval.

The fact that KMS or an Advisor may actually own the same security as one or more of his Clients constitutes a conflict of interest. KMS monitors trading activity to ensure that Clients are not disadvantaged relative to KMS or Advisors when trading such securities.

### **Item 12 – Brokerage Practices**

KMS Advisory accounts may be held at the following custodians: Pershing LLC, Charles Schwab & Co., Inc. ("Schwab"), Fidelity Institutional Wealth Services ("Fidelity"), or TD Ameritrade, Inc. ("TD Ameritrade"). All custodians assess transaction-related charges for various services such as brokerage commissions, confirmation delivery, exchanges within a mutual fund family, and early redemptions. The costs can vary depending on a number of

factors including but not limited to: type of security, transaction size, and trade entry method. To obtain the current trade and account fee schedules, contact your KMS Advisor.

When evaluating custodians to recommend to Clients, KMS Advisors consider a number of factors including costs to Clients for brokerage and other services, and products and services custodians offer that will assist the Advisor in managing and administering Client accounts. While these products and services benefit KMS and KMS Advisors, they may not necessarily benefit every KMS Client directly. Services and products that KMS Advisors actively consider and evaluate include but are not limited to: software and other technology that provide access to client account data (such as trade confirmations and account statements), facilitate trade execution (and allocation of aggregate trade orders for multiple accounts), provide research and market data, facilitate KMS' management fee payments from Client accounts, assist with back-office functions, and recordkeeping and Client reporting. Many of these services may be used to service all or a substantial number of KMS accounts, including accounts not maintained on the platform that provides the services. KMS Advisors also evaluate services available that are intended to assist them in managing and developing their business enterprises. These services include consulting, practice management resources, information technology, business succession planning, regulatory compliance, and marketing.

KMS Advisors' recommendations or requirements that Clients maintain their assets in account at a particular institution may be based in part on the benefit to the KMS Advisor of the availability of some of the products and services listed above and not solely on the nature, cost or quality of the custody and brokerage services provided by the custodian, which constitutes a conflict of interest.

For advisory accounts custodied at Pershing, KMS acts a broker-dealer. As such, it determines and receives service and transaction-related charges (commissions, confirmation fees, etc.) for executing securities trades. These sources of revenue to KMS largely offset KMS' direct clearing costs and KMS' indirect costs of trade execution services. Additionally, if transaction volume of all KMS accounts (advisory and non-advisory) reaches certain monthly thresholds, Pershing will reduce KMS' clearing costs for that month. KMS' receipt of this revenue and the possibility KMS may be able to negotiate its amount or KMS' retention, constitutes a conflict of interest. To monitor and address these conflicts of interest, KMS does not incentivize (or disincentivize) Advisors to execute trades because Advisors do not share in the revenue (or costs) associated with the trades. Additionally, KMS reviews trading activity, comparing it to account investment objectives, trading strategy and overall suitability. Clients retain overall control of their accounts including their choice of custodian and program.

KMS participates in Pershing's FUNDVEST® no transaction fee mutual fund platform which offers Clients no-load (and load-waived) mutual funds with a waiver of the standard transaction charge, subject to certain restrictions on short term trading. In lieu of transaction-based commissions, KMS is eligible to receive revenue based on the assets in the FUNDVEST® platform. KMS does not share FUNDVEST® revenue with Advisors. Such revenue relates to KMS' cost of providing such services, but receipt of this revenue constitutes a conflict of interest. KMS addresses this conflict by not sharing the revenue it earns from FUNDVEST® with the Advisors who recommend or direct the trading, and by monitoring all trading activity and related costs to Clients.

Broker dealers affiliated with LTFS, such as KMS, receive revenue sharing from certain strategic partner product sponsors, such as mutual funds and variable annuities (hereinafter "Partner Programs"). Receipt of such revenue constitutes a conflict of interest. KMS addresses this conflict by not sharing the revenue it receives through LTFS Partner Programs with the Advisors who recommend or direct the trading, by monitoring all trading activity and related costs to Clients, and in some cases may reduce transaction charges to clients for accounts held with KMS as the broker-dealer.

Under the Partner Program, Strategic and Distribution Partners pay a flat annual fees, basis points on sales on assets, and/or a percentage of their fees. Payments made by the firms participating in the program are not paid or directed to any KMS Advisor who utilizes the services of these Program Partners.

## **Partner Program**

*Investment Company (mutual fund) and Variable Annuity Sponsors participating in the Partners Program currently include:*

AIG/Sunamerica Annuities, Allianz Global Investors, Allianz Life Annuities, American Funds, AXA Annuities, Blackrock Funds, CUNA Mutual Group Annuities, Cedar Capital Mutual Funds, Deutsche Asset and Wealth Management, Fidelity Advisor Funds, Forethought Life, Franklin Templeton Distributor, Ivy Investments, Jackson National, Jefferson National Annuities, John Hancock Investments, JP Morgan Asset Management, Lincoln Financial, Lord Abbott Funds, MetLife Annuities, Nationwide Annuities, Ohio National Annuities, Oppenheimer Funds, Pacific Life Annuities, Pacific Life Mutual Funds, PIMCO Funds, Pioneer Investments, Principal Global Investors, Prudential Annuities, Prudential Investments, Putnam Investments, Sammons Retirement Solutions, Security Benefit Annuities, Sierra Investment Management, Swan Global Investments, Transamerica Annuities, Voya Annuities, and Weitz Investments.

**Best Execution:** KMS as an investment advisor seeks “best execution” for Client transactions.. Based on these principles, KMS periodically reviews the totality of custodial service packages offered by the four broker-dealers (custodians) it currently uses: Pershing, Schwab, TD Ameritrade and Fidelity. The review includes but is not limited to: the technology trading platform, ancillary services, block trading capability, trade error resolution, service response time, reporting, commission and fee structures. Accordingly, while KMS does consider the costs of trading, not all transactions result in the lowest possible commission rates for Client account transactions. Also, for accounts held at Pershing with KMS as the broker-dealer, some conflicts of interest exist as described in Item 5 - Fees and Compensation, Item 12 - Brokerage Practices and Item 14 - Client Referrals and Other Compensation

As discussed in other portions of this document, in reviewing and approving certain brokerage platforms, allowing representatives to receive 12b-1 fees or commissions in addition to an advisory fee, allowing the FundVest program for clients, and retaining some ability to negotiate receipt of brokerage related revenue, KMS incentivizes use of those brokerage platforms and creates a conflict of interest. KMS mitigates this conflict of interest through Client disclosure, regular review of Pershing as a primary brokerage platform with KMS as broker-dealer to assure they remain competitive, given myriad parameters, and makes available competitive competing advisory platforms where KMS does not act as broker-dealer, review its activities, or negotiate its revenue.

Clients should consider that although KMS engages in analysis to offer high quality trading platforms to clients, it has chosen not to offer an unlimited number of platforms. The currently available platforms are disclosed within this brochure. In light of KMS’ limited approved trading platforms for KMS advisory accounts and the fact that only some of the approved trading platforms may accommodate the investment strategy recommended by the Client’s KMS Advisor, KMS Advisors are limited in their ability to obtain the best execution price and lowest execution costs for each transaction or the product with the lowest internal expenses. Therefore, KMS recommends that Clients compare and discuss with their Advisor their anticipated trading patterns and costs and compare those to other non-KMS approved vendors. Clients may pay higher commissions or trade execution charges through the trading platforms approved by KMS than through platforms that have not been approved by KMS as trading platforms for investment advisory accounts. Not all Investment Advisors restrict or limit the broker-dealer their clients can use and may permit them to select any broker-dealer.

**Share Class Selection:** In certain instances multiple share classes of the same mutual fund may be available for investment, with one share class charging higher ongoing expenses and the lower cost shares may be subject to higher minimum purchase amounts. In some cases brokerage and clearing transaction fees are waived when using the higher cost share class. You should discuss with your Advisor whether lower cost share classes are available and/or are appropriate given the expected holding period and the amount invested. Your KMS Advisor may select or recommend a fund share class that pays Additional Compensation even when you are eligible to own a lower cost share class. When KMS is acting as the broker-dealer some higher expense funds pay KMS additional compensation (12b-1 trails, Partner Program revenue sharing, FUNDVEST® revenue discussed above) which represent conflicts of interest. KMS addresses these conflicts a variety of ways, which include additional disclosure and in some cases by providing reduced brokerage charges, fee adjustments or account credits.

**Trade Aggregation:** On some occasions a KMS Advisor will execute Client transactions on a block or aggregate basis. This involves entering one large trade and allocating shares among multiple Client accounts. This may facilitate more timely execution as well as a more equitable and efficient approach to achieving favorable price execution for a group of Clients. KMS allows each Advisor to choose to engage in block trading in a manner consistent with industry standards and KMS policies. Clients participating in any such block or aggregated transactions will receive an average share price on a pro-rata basis.

**Trade Allocation:** KMS' trade allocation policies and procedures call for fair and equitable allocation of trades among accounts with no particular Client(s) or groups of Clients being favored or disfavored. Generally an Advisor must identify a given block trade allocation before that trade is entered. If the trade is filled as entered, the Advisor must allocate according to the pre-determined block. If issues arise that prevent the allocation pursuant to the pre-determined block, the Advisor will seek KMS approval to allocate the shares in a fair and equitable manner and document the rationale for doing so.

**Trade Errors:** KMS has the responsibility to execute orders correctly, promptly, and in the best interest of its Clients. If an error occurs due to KMS or Advisor's action or inaction, KMS' will seek to promptly identify and correct such error without disadvantaging the Client(s) involved.

### **Item 13 – Review of Accounts**

Depending on the nature of the advisory relationship, Advisors review accounts at least quarterly, semi-annually, or annually to determine whether the positions, transactions, and strategies are consistent with the Client's stated investment objective(s). Advisors may review accounts with each Client in person or by phone on an ongoing basis on a predetermined schedule based on each Client's preferences. Clients may request a review of accounts with the Advisor at any time. Additionally, market events may trigger an Advisor to conduct an account review and/or communicate with Clients. Periodically KMS Compliance Officers review a sample of accounts from each Advisor for consistency with stated Client objectives, risk tolerance, time horizon, etc.

Clients are provided with monthly or quarterly statements (in written or electronic format), depending on the activity in the account, directly from the qualified custodian. Statements will include information on Client holdings, balances, and account activity. Additionally, Clients will be provided with performance reports on a regular basis (quarterly, semi-annually, or annually), delivered in either written or electronic format. KMS urges Clients to read all statements and reports promptly.

### **Item 14 – Client Referrals and Other Compensation**

**Client Referrals:** KMS has referral arrangements with financial institutions, such as banks or credit unions, under which they provide certain KMS Advisors with referrals to potential Clients in exchange for a portion of the investment advisory fees and/or commissions KMS may earn from that potential Client. All investment recommendations and advice are provided by the KMS Advisor who will secure from each Client a written acknowledgement that the Client understands the respective roles of KMS and the financial institution.

**Other Compensation for Non-advisory Business:** As discussed in Item 10 – Other Financial Industry Activities and Affiliations, Advisor may also recommend that a Client buy (or sell) a security or insurance product outside the context of the advisory account(s). If a Client decides to buy or sell a security or insurance product, KMS and Advisor may be paid a commission (including mark-up or mark-down) on those transactions. In these circumstances KMS and Advisor would have a financial interest in the transaction which constitutes a conflict of interest. Generally the Advisor will disclose the amount of compensation at the time a recommendation is made by delivering the relevant prospectus or the equivalent. Clients are under no obligation to purchase securities or insurance products through KMS or the Advisor.

LTCO acts as a dealer with respect to certain securities, and as such, may execute transactions for KMS Clients as principal. As a dealer, LTCO may receive a "mark-up," "mark-down," and / or spread in the net price at which principal transactions are executed. This compensation is in addition to other compensation that client pays to KMS and its affiliates under the Program. Thus, KMS has a conflict of interest in deciding to execute trades through LTCO on a principal basis. KMS addresses this conflict in the following ways. After receiving disclosures about a specific

principal transaction with LTCO, Clients have the opportunity to reject the transaction before it is completed, to the extent required by applicable law. In addition, KMS has policies and procedures in place to assure that Clients receive best execution with respect to principal trades, regardless of whether the trade is executed by LTCO or an unaffiliated dealer (see Item 12 – Brokerage Practices).

KMS may also recommend that Clients invest in securities issued in an initial public and/or secondary offerings (“new issues”) for which LTCO acts as a manager, underwriter and/or a member of the selling group. KMS has a conflict of interest in recommending these securities for several reasons. First, KMS receives all or a portion of the gross spread – the difference between the price that the Client pays for the security and the price that KMS purchases the security for -- in connection with such sales. This gross spread is generally 7%, but may be higher or lower in connection with certain offerings. KMS advisors generally receive a portion of this compensation as broker-dealer representatives of KMS. In addition, LTCO has a substantial interest—both financial and with respect to its reputation—in assuring that the offering is successful by having a large number of the securities purchased. Finally, in connection with certain offerings, LTCO has an obligation to purchase and resell a certain number of securities. Thus, because of its affiliation with LTCO, KMS has incentives to recommend these investments in these offerings for these reasons, rather than based on a Client’s needs. To address these conflicts, KMS has policies and procedures in place to make sure that securities in initial public offerings are recommended only to Clients for whom they are suitable given the Client’s investment objectives and assets. In addition, Clients are generally given transaction specific disclosure prior to the Client’s decision to invest in such securities. Securities acquired in initial public and secondary offerings may be oversubscribed and KMS has policies and procedures in place for the allocation process.

As discussed in Item 10 – Other Financial Industry Activities and Affiliations, Advisors may also engage in other businesses outside of KMS and recommend that a Client purchase such a product or service outside of the context of the advisory account(s) (“Recommendations”). Such activities are disclosed to Clients via the attached 2B Brochure Supplement. To the extent those Recommendations create compensation for an Advisor and involve using funds from the advisory account(s), the Advisor would have a financial interest in the transaction that may constitute a conflict of interest. KMS does not share in this compensation. KMS encourages Clients to inquire with their Advisor about this possible conflict before accepting any Recommendations.

**Other Compensation in General:** KMS hosts **several conferences** for its Advisors, discussing timely topics about products, services, investment strategies, KMS procedures, and practice management. Various sponsors attending the conference may pay KMS a fee, which helps defray a portion of KMS’ cost of hosting the conference. This type of cost sharing is a typical practice in the industry. KMS, as a participant in LTFS affiliates Partner Programs, will receive additional financial support for conferences from Partner Program Mutual Fund, Variable Annuity, Third Party Advisors, Non-traded product sponsors, as well as clearing firms and custodians. Further description of the LTFS additional compensation and reimbursement program sponsors is made available at [www.kms.com](http://www.kms.com), but the direct or indirect receipt of such assistance constitutes a conflict of interest. KMS addresses this conflict by not sharing the revenue it receives through LTFS Partner Programs with the Advisors who recommend or direct the trading, and by monitoring all trading activity and related costs to Clients.

Third party advisory firms, mutual fund, variable annuity or other product sponsors and custodians may offer KMS or KMS Advisors **financial assistance** in the form of marketing reimbursements, complimentary or discounted technology platforms and/or due diligence trips. Marketing reimbursement allows a third party advisor to help KMS Advisors grow their client base. Marketing reimbursements are for documentable expenses and do not exceed the cost of the item. Third party advisors provide support for due diligence and educational trips to educate and train KMS Advisors (and KMS home office staff) about that firm’s services and tools. These reimbursements do not exceed the cost of attending the trip or meeting. Further, any technology (or technology support) provided is either a tool required for the Advisor to (efficiently) deliver the service under the advisory contract or it is merely a discount off the “retail” price of the particular technology which assists the Advisor in servicing Clients. The level of these forms of support is typical in the industry and modest relative to the total value of services rendered. KMS Advisors are prohibited from promoting or recommending any investment, including those issued by fund families, insurance carriers, or sponsors, over another based solely on additional payments or other considerations that might be received from the recommendation, sale or marketing of their products. KMS Advisors are required to make recommendations to clients based on the clients’ needs and objectives; however, receipt of such reimbursements could create an incentive by your



KMS Advisor to recommend products that provide such assistance to them or payments to KMS (or LTFS). We encourage you to talk with your KMS Advisor about any compensation they receive from product sponsors.

### **Other Compensation on KMS Advisor Asset Management Accounts Held at Pershing**

For Advisor Asset Management accounts held at Pershing, KMS is also the broker-dealer of record and in addition to the advisory fee specified in agreements with Clients receives compensation associated with such accounts. This compensation is discussed above in Item 12-Brokerage Practices.

Under an automatic “cash sweep” program, cash in your Pershing account is invested in money market funds (“Cash Funds”), some of which pay Trails to KMS for related services, representing a cost borne by the Cash Funds’ investors. Even though the payment to KMS of this Cash Fund Trail revenue relates to services KMS provides, receipt by KMS of the revenue represents a conflict of interest. To mitigate this conflict of interest, KMS will not pay any of the Cash Fund Trail revenue to the Advisor or Registered Representative on the account.

For any Advisor Asset Management Accounts at Pershing that use margin (borrowing), KMS receives a portion of the margin interest charged for a Client’s margin balance. KMS does not share revenue from margin interest with the Advisor. KMS’ receipt of this margin interest is a conflict of interest. KMS mitigates this conflict of interest by reviewing each Client’s application for margin to make sure it is consistent with their stated needs and objectives and financial situation. Additionally, when first applying for a margin account, each Client must acknowledge the risks and costs related to the use of margin.

For accounts held at Pershing, KMS will receive from Pershing a portion of the IRA maintenance fee Clients pay to Pershing, a portion of the confirmation fee on transactions as well as a portion of service fees for miscellaneous services, such as corporate actions, bond maturity, and wire transfers, etc. KMS discloses those charges annually on the Pershing account statement.

### **Item 15 – Custody**

According to SEC rules and regulations, KMS is deemed to have “custody” of Client investment advisory accounts. KMS has procedures to ensure all Client funds and securities are held at a qualified custodian (Pershing, Schwab, Fidelity or TD Ameritrade) in a separate account under that Client’s name. Clients must establish any accounts in written documents and therefore are aware of the qualified custodian’s name, address and the manner in which the funds or securities are maintained.

Qualified custodians send account statements directly to Clients at least quarterly. Clients should carefully review those statements. When Clients have questions about their statements, they should contact their KMS Advisor or the qualified custodian. Clients may also receive reports regarding their accounts from their KMS Advisor. Clients are urged to compare any reports generated by a KMS Advisor against the account statements sent by the qualified custodian.

In accordance with SEC regulations, KMS is subject to an annual surprise verification examination, the purpose of which is to verify that the funds and securities of which KMS has custody actually exist and are located at the applicable qualified custodian. The annual surprise verification examination is performed by a third-party accounting firm that is not affiliated with KMS.

**Please note that payment for fees, securities and any other items cannot be made payable to a KMS Advisor, their staff members or entities owned by the KMS Advisor.** Payment for securities and for funding an account must be made payable to the account’s qualified custodian or KMS. The qualified custodian for a KMS Client account will never be a KMS Advisor.

### **Item 16 – Investment Discretion**

Depending on the nature of the advisory relationship, a Client may decide to grant investment discretion to his or her KMS Advisor, Subadvisor, or Third Party Advisor. Investment discretion granted to a KMS Advisor is limited to the selection of the securities to be bought or sold and the amount of the securities to be bought or sold and must be authorized in writing by the Client.

**Item 17 – Voting Client Securities**

Most KMS Advisors elect not to vote proxies on behalf of their Clients. Clients that have elected to vote their own proxies will receive these directly from the account custodian or a transfer agent. If an Advisor does elect to vote proxies on behalf of Clients, such Clients must authorize KMS and the Advisor to do so through the applicable account application, contract or agreement. The KMS Advisor will perform the necessary research regarding each issue, evaluate any costs involved, document the findings, and vote in the clients best interests. If there are any conflicts of interest, these conflicts will be disclosed to the Client and Client consent will be received prior to the proxy vote being submitted. If the Client would like to direct the proxy vote on a particular issue the Client should communicate their instructions to the KMS Advisor timely, in such that the Advisor can act upon the instructions. Clients may obtain a copy of the KMS Proxy Voting Policies and also may obtain information as to how proxies were voted on their behalf upon request.

**Item 18 – Financial Information**

KMS is required to provide Clients with certain financial information or disclosures about its financial condition. KMS has no financial commitment that impairs our ability to meet our contractual and fiduciary commitments to you, and KMS has not been, nor does it expect to be, the subject of a bankruptcy proceeding.



### **KMS' Supervision of Palash S. Islam**

KMS is a broker-dealer (“BD”) and registered investment advisor (“RIA”) registered with the SEC. KMS is registered as a BD in 50 states and the District of Columbia (“DC”) and is positioned to act as an RIA in 50 states and DC. KMS offers financial products and services to the public through its registered representatives and RIA investment advisory representatives such as Palash S. Islam.

KMS' Seattle home office supervises its Advisors through various systems and procedures. Casey Dougherty, Co-Chief Compliance Officer and Tracy Forsythe, Managing Director/Chief Compliance Officer, supervise KMS Advisors and manage other KMS employees who supervise KMS Advisors. If you have questions about KMS' supervision of Advisors, please contact KMS at (206) 441-2885.

## **Addendum to ADV Part 2B Supplement Brochure Information on Advisor's Professional Designation(s)**

The **Certified Financial Planner™**, **CFP®** and federally registered CFP (with flame design) marks (collectively, the “CFP® marks”) are professional certification marks granted in the United States by the Certified Financial Planner Board of Standards, Inc. (“CFP Board”).

The CFP® certification is a voluntary certification; no federal or state law or regulation requires financial planners to hold CFP® certification. It is recognized in the United States and a number of other countries for its (1) high standard of professional education; (2) stringent code of conduct and standards of practice; and (3) ethical requirements that govern professional engagements with clients. Currently, more than 62,000 individuals have obtained CFP® certification in the United States.

To attain the right to use the CFP® marks, an individual must satisfactorily fulfill the following requirements:

**Education** - Complete an advanced college-level course of study addressing the financial planning subject areas that CFP Board’s studies have determined as necessary for the competent and professional delivery of financial planning services, and attain a Bachelor’s Degree from a regionally accredited United States college or university (or its equivalent from a foreign university). CFP Board’s financial planning subject areas include insurance planning and risk management, employee benefits planning, investment planning, income tax planning, retirement planning, and estate planning.

**Examination** - Pass the comprehensive CFP® Certification Examination. The examination, administered in 10 hours over a two-day period, includes case studies and client scenarios designed to test one’s ability to correctly diagnose financial planning issues and apply one’s knowledge of financial planning to real world circumstances.

**Experience** - Complete at least three years of full-time financial planning-related experience (or the equivalent, measured as 2,000 hours per year).

**Ethics** - Agree to be bound by CFP Board’s *Standards of Professional Conduct*, a set of documents outlining the ethical and practice standards for CFP® professionals. Individuals who become certified must complete the following ongoing education and ethics requirements in order to maintain the right to continue to use the CFP® marks.

**Continuing Education** - Complete 30 hours of continuing education hours every two years, including two hours on the *Code of Ethics* and other parts of the *Standards of Professional Conduct*, to maintain competence and keep up with developments in the financial planning field.

**Ethics** - Renew an agreement to be bound by the *Standards of Professional Conduct*. The *Standards* prominently require that CFP® professionals provide financial planning services at a fiduciary standard of care. This means CFP® professionals must provide financial planning services in the best interests of their clients.

CFP® professionals who fail to comply with the above standards and requirements may be subject to CFP Board’s enforcement process, which could result in suspension or permanent revocation of their CFP® certification.

Additional information regarding this designation is available by contacting the CFP Board at [www.CFP.net](http://www.CFP.net).

**Addendum to ADV Part 2B Supplement Brochure**  
**Information on Advisor's Professional Designation(s)**

The College for Financial Planning and the National Association of Insurance and Financial Advisors (NAIFA) jointly confer the **Life Underwriter Training Council Fellow, or LUTCF designation**, to insurance professionals who have completed six courses combining essential product knowledge with basic planning concepts.

Additional information regarding this designation is available by contacting the College for Financial Planning at [www.cffpinfo.com](http://www.cffpinfo.com).