

**DISCLOSURE DOCUMENT  
INVESTMENT ADVISORY PRODUCTS**

**Key Investment Services LLC**

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**NOTICES TO ADVISORY ACCOUNT CLIENTS**

By signing the documents to establish a wrap account, which is an investment advisory account, with Key Investment Services LLC, you established a brokerage account at Pershing LLC. Pershing acts as a qualified custodian for all Key Investment Services LLC advisory account assets. Pershing holds and maintains all funds and securities in your advisory account, and will send you periodic statements showing your holdings and any activity in your account. Please read your statements carefully when you receive them.

You can contact Pershing at the following address:

Pershing LLC  
One Pershing Place  
Jersey City, New Jersey 07399

**This brochure provides clients with information about Key Investment Services LLC and its various investment advisory products that should be considered before becoming an advisory client of Key Investment Services LLC. This information has not been approved or verified by any governmental authority.**

Investment products are offered through Key Investment Services LLC (KIS), member FINRA/SIPC and carried by Pershing LLC, member FINRA/NYSE/SIPC. Insurance products are offered through KeyCorp Insurance Agency USA Inc. (KIA). KIS and KIA are affiliated with KeyBank National Association (KeyBank). KIS, KIA and KeyBank are separate entities, and when you buy or sell securities and insurance products you are doing business with KIS and/or KIA, and not KeyBank.

Investment and insurance products made available through KIS and KIA are:

<p><b>NOT FDIC INSURED • NOT BANK GUARANTEED • MAY LOSE VALUE • NOT A DEPOSIT • NOT INSURED BY ANY FEDERAL OR STATE GOVERNMENT AGENCY</b></p>
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## **INTRODUCTION TO INVESTMENT ADVISORY PRODUCTS**

Key Investment Services LLC (“KIS”) either sponsors or offers the investment advisory products listed in this brochure for its clients. KIS may refine its investment advisory product offerings and introduce new products as part of its continuous efforts to meet the investment needs of its clients, respond to changing markets and take advantage of recent technological or other innovations. In addition, from time to time acquisitions or new business relationships may contribute new product offerings.

### **WRAP FEE PRODUCTS**

Current wrap fee products offered by KIS include:

- **Lockwood Investment Strategies (“LIS”)** – a discretionary, multi-discipline managed account product housed in a single portfolio with five core models. The five (5) core models span the risk/return spectrum from current income model to growth model within the context of a diversified portfolio. Clients may also choose from four (4) additional models which include exposure to non-traditional asset classes, as described more fully below. Lockwood Capital Management (“LCM”), serving as the Portfolio Manager, determines asset allocation and selects both Sub-Managers and specific investment vehicles for each investment style based on its proprietary modeling strategies, as well as its macroeconomic outlook and investment discipline.
- **Lockwood AdvisorFlex Portfolios (“AFP”)** – a series of model portfolios diversified at the asset class level and among different security types. Clients may choose from sixteen (16) models spanning the risk/return spectrum from income to capital appreciation. Lockwood Advisors, Inc. (“Lockwood”), serving as Program Sponsor and Money Manager, reviews and approves the allocations and investment selections to be included in the AFP portfolios. In addition, Lockwood periodically reviews the asset allocation strategies and investment selections with the AFP model portfolios seeking to ensure that the portfolios continue to adhere to their respective original investment objectives.

KIS introduces the account to Pershing LLC (“Pershing”), which will act as custodian for the account. Services offered by Pershing as custodian of the account will include all custodial functions customarily performed with respect to such accounts including, but not limited to: back office support, execution of securities transactions (when appropriate), crediting of interest and dividends and periodic reporting, which reports Pershing will send directly to the client.

KIS will allow its clients to continue to hold the following wrap fee products, provided that the client entered into the wrap fee program while with McDonald Investments Inc., now known as KeyBanc Capital Markets Inc., prior to January 1, 2006. **No new accounts may participate in these programs.**

- **Key Managed Solutions** – an individually managed investment program designed for individuals, small businesses and non-profit organizations, combining the expertise of a KIS Financial Advisor with the skill of appropriate, pre-qualified investment managers to provide the benefits of institutional money management to clients with a minimum of \$100,000 to invest with each manager selected.
- **Key Select Solutions** – a variation on the Key Managed Solutions product which accommodates the client’s selection of one or more money managers which have not been pre-qualified by KIS, McDonald Investments (now KeyBanc Capital Markets Inc.) or LCM.

Prior to September 30, 2009 KIS offered the **Key Asset Account**, a managed investment program for clients with at least \$25,000 to invest in a professionally designed portfolio of mutual funds purchased at net asset value based upon certain asset allocation model portfolios of KIS to its clients. On and after September 30, 2009, KIS will no longer offer the Key Asset Account program. All accounts were either transferred to Lockwood's AFP program described above or became nondiscretionary brokerage accounts.

Additional information about each of these programs is discussed below.

## **LOCKWOOD INVESTMENT STRATEGIES**

LIS is discretionary, multi-discipline managed account product housed in a single portfolio with five core models. The five (5) core models span the risk/return spectrum from current income model to growth model within the context of a diversified portfolio. Clients may also choose from four (4) additional models which include exposure to non-traditional asset classes. LCM, serving as the Portfolio Manager, determines asset allocation and selects both Sub-Managers and specific investment vehicles for each investment style based on its proprietary modeling strategies, as well as its macroeconomic outlook and investment discipline.

LCM selects a Sub-Manager or investment vehicle, such as an exchange-traded fund ("ETF") or mutual fund, for each investment style. When selected for inclusion within the program, each Sub-Manager electronically provides its model portfolio (buy-list) to LCM on a daily basis. LCM also serves as the Overlay Manager. The Overlay Manager combines each of the model portfolios into one Investment Strategies portfolio designed to perform and act similar to the target benchmark for the portfolio. The Overlay Manager gathers each of the portfolios and runs an optimization program that removes security overlap, minimizes tax implications, and creates better tracking to the target benchmark. The Sub-Managers and investment vehicles currently employed in LIS portfolios are described in Exhibit A to LCM's ADV Part II, LIS, LAAP and LIS<sup>2</sup> Brochure. LIS is subject to change at LCM's sole discretion.

When LCM selects investment vehicles for each investment style component for each of the portfolios, a number of factors are evaluated. Not only must the vehicle stand on its own investment merits, but it also must fit within the overall strategy. The amount allocated to an investment style component may determine which instrument may be used to manage that portion of the portfolio. An instrument such as a mutual fund or ETF may be utilized to allow broad market exposure to be achieved for lower dollar values. A basket of individual securities supplied by a Sub-Manager may be used for allocations where LCM seeks active management exposure. LCM reviews Sub-Manager and investment vehicle combinations to determine the most effective combination of investments to satisfy the goals of the portfolio. LCM also pays considerable attention to fees, liquidity, investment minimums, and operational issues as they pertain to the implementation and inclusion of investment vehicles and Sub-Managers in the portfolios.

LCM offers a series of strategies limited to traditional asset classes only (Traditional) and a series of strategies that include traditional and alternative investment asset classes (Alternative) for implementation.

For further information and disclosures concerning LIS and LCM, please read carefully LCM's ADV Part II, LIS, LAAP and LIS<sup>2</sup> Brochure.

Clients are charged a wrap fee every calendar quarter. The minimum account size is \$250,000 and the maximum wrap fee that clients may be charged is set forth in the table below. The wrap fee actually paid

by a particular client is set forth in the Client Agreement. KIS may change the actual fee charged upon thirty days' written notice to the client. Clients may accept the change or close the account.

<u>Portfolio Value</u>	<u>Maximum Annual Fee</u>	
	<u>&gt;50% Equities</u>	<u>&gt;50% Fixed Income</u>
First \$500,000	3.00%	2.50%
Next \$500,000	2.50%	2.00%
Next \$1,500,000	2.00%	1.50%
Next \$7,500,000	1.50%	1.00%

See also "Fee Information."

## **LOCKWOOD ADVISORFLEX PORTFOLIOS**

AFP is a series of model portfolios diversified at the asset class level and among different security types. Clients may choose from sixteen (16) models spanning the risk/return spectrum from income to capital appreciation. Lockwood, serving as Program Sponsor and Money Manager, reviews and approves the allocations and investment selections to be included in the AFP portfolios. In addition, Lockwood periodically reviews the asset allocation strategies and investment selections with the AFP model portfolios seeking to ensure that the portfolios continue to adhere to their respective original investment objectives.

Lockwood is the sponsor and money manager of the AFP product. After review and approval of the asset allocations and the investment selections, Lockwood makes certain model portfolios ("Models") available to KIS and its authorized representatives for marketing to its Clients, as detailed below.

Until February 28, 2009, Lockwood received asset allocations and certain investment selection suggestions relating to AFP from Standard & Poor's Investment Advisory Services LLC ("SPIAS"). SPIAS served as a sub-adviser to Lockwood with respect to AFP until that time. After February 28, 2009, Lockwood provides certain of the services previously performed by SPIAS, as described more fully below.

The revised AFP product includes three, objectives-based strategies (Appreciation, Income and Preservation), with multiple Models within each strategy, as described below. Until April 3, 2009, AFP consisted of eight (8) models/asset allocation strategies ("Models"). Effective April 3, 2009, the number of Models expanded to a total of sixteen (16) Models. Accounts opened prior to April 3, 2009, in one of the eight Models were mapped to the comparable Model within sixteen (16) new Models. The sixteen new Models are described in detail in Exhibit C of Lockwood's ADV Part II, Schedule H (Managed Account Advisors Wrap Fee Brochure) and are as follows:

- Appreciation Model I
- Appreciation Model II
- Appreciation Model III
- Appreciation Model IV
- Appreciation Model V
- Appreciation Model VI

- Income Model I
- Income Model II
- Income Model III
- Income Model IV
- Income Model V

Preservation Model I  
Preservation Model II  
Preservation Model III  
Preservation Model IV  
Preservation Model V

These Models are intended to align with the different phases of the investor life cycle, from wealth accumulation, to transition into retirement and ultimately, the management and distribution of income. Each of the Models contains specific investment selections. Disclosures relating to the specific investment selections are contained in Exhibit D to Lockwood's ADV Part II, Schedule H (Managed Account Advisors Wrap Fee Brochure) and should be reviewed in detail by each Client. The Client and his/her KIS Financial Advisor are responsible for selecting the appropriate Model for the Client.

At any time, a Client or the Client's KIS Financial Advisor may determine to move up or down one Model level from the originally selected Model, at their sole discretion.

Until February 28, 2009, Lockwood made available to KIS the Models and related information, including certain research reports prepared by SPIAS. Effective April 2009, Lockwood shall make available research reports relating to the investment selections within the Models and prepared by Morningstar, Inc. ("Morningstar").

For each investment selection within a Model, Lockwood identifies several options from which the Client and his/her KIS Financial Advisor may choose. Within each Model, there will be primary investment selections ("Primary Selections") and alternate investment selections ("Alternate Selections") from which the Client and his/her KIS Financial Advisor may choose.

Lockwood will implement certain updates and changes to the Models ("Model Updates") throughout the life of the Client's AFP account. Each Client has given Lockwood the limited discretion to implement such Model Updates, and the Client and his/her KIS Financial Advisor are responsible for reviewing all such Model Updates. A Model Update may include replacing one investment vehicle with another and/or changing the asset allocation within a Model.

At any time and in Lockwood's sole discretion, Lockwood may reclassify a Primary Selection as an Alternate Selection. In such a case, existing Accounts holding the Primary Selection may retain the Selection or affirmatively change to the new Primary Selection. In each instance, Lockwood will issue an "alert" to identify the new Primary Selection. In the event that a Primary Selection is eliminated from a Model altogether, all Accounts in the Model will default to the new Primary Selection. In the event that Lockwood removes one of the Alternate Selections, affected Accounts will default to either the Primary Selection or another, available Alternate Selection, as determined by Lockwood.

In certain instances when a Client selects both Primary Selections and Alternative Selections to complete a Model, the mixture of Primary Selections and Alternative Selections may result in changes to the weightings within an asset allocation.

Certain asset classes may contain only Primary Selections; Alternative Selections will not be made available in those cases, in Lockwood's sole discretion.

Lockwood, in its sole discretion, may rebalance a Client Account in such instances as are in the Client's best interests. Lockwood reviews each Account's drift from the selected Model on a regular basis and rebalances a Client Account as the circumstances warrant.

The Client grants limited discretion to his/her KIS Financial Advisor to make changes to Primary Selections and Alternative Selections in Client's AFP account and to make other decisions relating to the AFP Account on the Client's behalf.

The minimum size for AFP accounts is \$50,000.00, with minimum subsequent contributions of \$1,000.00. Lockwood, in its sole discretion, may waive the minimum account size. Accounts may be funded with cash equivalents or shares of investment selections included within a given Model.

For further information and disclosures concerning AFP, please read carefully Lockwood's ADV Part II, Schedule H (Managed Account Advisor Wrap Fee Brochure).

The fee for AFP accounts is billed quarterly in advance and is:

<u>Portfolio Value</u>	<u>Maximum Annual Fee</u>
First \$500,000	2.00%
Next \$500,000	1.50%
Over \$1,000,000	1.00%

See also "Fee Information."

## **KEY MANAGED SOLUTIONS/KEY SELECT SOLUTIONS**

### **No new accounts may participate in either of these programs.**

The Key Managed Solutions program was designed to offer suitable participants investment manager selection consulting, brokerage, portfolio supervision and consolidated reporting in return for a wrap fee. LCM will regularly monitor the participating investment managers for continued qualifications and performance. KIS will review the client's financial situation to determine if the managers chosen as a part of the customized, comprehensive and disciplined investment program (which may address both strategic (long-term) and tactical (short-term) investment strategies and also typically incorporates appropriate asset allocation ranges) and designed with the client's KIS Financial Advisor is still appropriate for the client. Additionally, LCM will provide comprehensive quarterly performance analysis and reporting.

Clients also may continue to participate in certain pre-screened portfolios managed by Victory Capital Management Inc. ("Victory"), an affiliate of KIS, in the Key Managed Solutions program. See "About KeyCorp and Key Investment Services LLC."

The Key Select Solutions program allows for KIS's clients to maintain a wrap fee account relationship with certain investment managers that were not pre-qualified by KIS, McDonald Investments or LCM. These investment managers typically charge more than investment managers which have agreed to participate in the Key Select Solutions program, and require clients to sign separate agreements directly with them.

The minimum account size for these programs is \$100,000, which is also the minimum amount which may be invested with a single manager. KIS's current fee schedule for Key Managed Solutions and Key Select Solutions accounts is as follows:

<u>Portfolio Value</u>	<u>Maximum Annual Fee</u>	
	<u>Equities/Balanced</u>	<u>Fixed Income</u>
First \$500,000	3.00%	1.50%
Next \$500,000	2.50%	1.25%
Next \$1,500,000	2.00%	1.00%
Remainder	1.50%	1.00%

See also “Fee Information.”

### **TYPES OF INVESTMENTS**

KIS, LCM, Lockwood and the investment manager(s) selected by or for the client offer investment advice, subject to client guidelines on a variety of investments, including open and closed-end mutual funds, exchange-traded funds (“ETFs”), unit investment trusts (“UITs”), and other cash and cash equivalent investments. These types of investments are discussed more fully below.

### **CASH AND OTHER SHORT TERM SECURITIES**

*Money Market Funds.* Money market funds are low-risk mutual funds that invest solely in money market instruments, i.e., highly liquid, short-term debt securities. These instruments are typically among the most stable and safest investments. Although they are not FDIC insured, money market funds are considered secure because they usually invest in securities that carry a low default risk, including securities issued by banks, large corporations, and the government. Money market funds provide stability by attempting to maintain a constant \$1 price per share or net asset value (“NAV”). A constant NAV simplifies accounting and maintains principal while the fund pays modest dividends periodically. Money market funds typically require a lower initial investment than money market instruments, allowing the investor to take advantage of the safety of money market instruments without a large initial investment. Despite the foregoing, certain money market fund shareholders were guaranteed to receive a \$1 per share NAV for amounts held as of September 19, 2008, pursuant to the terms of the United States Department of the Treasury’s Temporary Money Market Fund Guarantee Program. This program expired on September 18, 2009. Please read any supplement to the prospectus for any money market funds in your account for details on how this program may impact your investments.

*FDIC Variable Rate Cash Sweep Option.* The FDIC Variable Rate Deposit account is an interest-bearing account offered through KIS and held at KeyBank in the name of Pershing as agent for its clients. The FDIC Variable Rate Deposit is a sweep option for KIS client accounts that may be used by Financial Advisors for long or short-term cash holdings. All activity with regard to this account must be conducted through a client’s account with KIS. Information, including monthly interest paid, is included on periodic statements of account provided by KIS.

The FDIC Variable Rate Deposit account pays interest at a variable interest rate. KeyBank sets the rate on the account using various money market interest rates, as guidelines. The interest rate and Annual Percentage Yield (“APY”) may be changed by KeyBank as often as daily. KeyBank may pay KIS commissions of up to 10 basis points (0.10%) per annum in monthly installments based on the monthly average balance in FDIC Variable Rate Deposit accounts. This percentage is similar to that which KeyBank pays unaffiliated deposit brokers. This payment does not affect the interest rate paid to client accounts.

The FDIC Variable Rate Deposit account balances are eligible for federal deposit insurance from the Federal Deposit Insurance Corporation of up to \$250,000 in principal and accrued interest per depositor



through December 31, 2013. Starting on January 1, 2014, the FDIC Variable Rate Deposit account balances will be eligible for federal deposit insurance of up to \$100,000 in principal and accrued interest per depositor, except that the FDIC Variable Rate Deposit account balances held in certain retirement accounts will continue to be eligible for federal deposit insurance up to \$250,000 in principal and accrued interest per depositor. For deposit insurance purposes, KeyBank deposit account balances, including certificates of deposit or other KeyBank deposit accounts held in the same ownership capacity, will be aggregated with this deposit account.

For more information regarding FDIC Variable Rate Deposit accounts, please refer to the more detailed “FDIC Variable Rate Deposit Disclosure” available from KIS Financial Advisors.

*Short Term Securities.* Cash-equivalent securities are short-term investments that earn interest. Their primary features are liquidity and security, and they can easily be converted to cash with little or no loss of value. This liquidity allows an investor to quickly participate in the new investment opportunities or cover unexpected expenses. Short Term securities include U.S. Treasury Bills (“T-bills”), certificates of deposit (“CDs”), and savings accounts and deposits. T-bills are government debt securities that offer U.S. government backing, making them one of the safest available investments. Interest earned on a T-bill comes from buying below par value and then receiving par value from the government upon maturity. CDs pay interest for a fixed term, typically at a fixed rate. However, CDs interest payments may be forfeited in whole or in part if money is withdrawn before maturity date.

## **MUTUAL FUNDS**

KIS’s wrap fee products involve investments in mutual funds. A separate disclosure document called a prospectus will contain extensive information regarding the investments, risks, performance, fees, management, organization, capital structure, distribution and other information for prospective shareholders in each fund or family of funds. Additionally, mutual fund policies can be found in a fund’s Statement of Additional Information, which is available upon request from the fund company.

## **EXCHANGE-TRADED FUNDS (“ETFs”)**

ETFs are investment companies listed on an exchange. They may mirror an existing equity index or fixed-income index or they may invest in a specific business sector. However, unlike an index mutual fund, an ETF may not be a carbon copy of the index it mirrors. Also unlike mutual funds, for which prices are set at the end of each trading day, ETF prices can constantly change throughout the trading day. ETFs represent a basket of securities and are priced every 15 seconds. As underlying securities in the basket are changing values, so is the net asset value of the ETF. There are also lower expense ratios for ETFs compared with mutual funds, and ETFs are more tax-efficient because of the low turnover in holdings. In taxable accounts, ETFs have the advantage because they are less likely to have capital gains distributions, while mutual funds will have distributions when they recognize gains from selling a stock, and the investor may incur taxes in connection with those distributions.

ETFs are subject to risks similar to other diversified portfolios, including declines in the general level of stock or bond prices and fluctuations in the overall depth and liquidity of the secondary market. Sector ETFs may be adversely affected by overall sector performance, and ETFs including international securities are subject to the risks of investing in such foreign securities generally.

## **UNIT INVESTMENT TRUSTS (“UITs”)**

UITs are available through LIS. UITs are professionally selected portfolios of stocks or bonds designed to meet stated investment objectives. Clients choose UITs based on the objectives of the trusts and the securities in the portfolio. Because UITs follow “buy-hold strategies,” their portfolios are expected to remain constant once their securities are selected. This helps clients construct an overall diversified portfolio through the purchase of units from different trusts, a portfolio that will not be changed by constant investment activity. It provides clients with an alternative to investing in mutual funds, where securities may be continually traded, or investing in individual stocks, which may be riskier and more costly. Clients may also benefit as the UITs buy-hold feature can help investors avoid short-term capital gains while deferring long-term capital gains through a tax-deferred rollover feature (not available for all trusts). Most equity UITs have holding periods between 12 months and 5 years, while fixed income UITs may be created with 5 to 30-year structures.

In equity UIT offerings, specified investment objectives, such as capital appreciation or income, are the basis for the selection of common stocks. These equity UIT portfolios have various levels of risk tolerance and differing investment styles. In fixed income UITs, income is the primary objective for bond selection. UITs give clients the opportunity to construct an overall investment portfolio diversified among various industries, asset classes and investment styles, through the purchase of units of different trusts. With diversity, exposure to any particular source of risk can be reduced.

## **HEDGE FUNDS AND FUNDS OF FUNDS**

Certain hedge funds and funds of funds are made available through outside managers. These hedge funds and funds of funds are not affiliated with KIS, KeyBank or their affiliates, and are either registered investment companies or private, unregistered investment companies which use a wide variety of investment strategies and which invest in a variety of underlying hedge funds, consistent with each fund's investment objectives. Investments in hedge funds and funds of funds may be subject to risks related to restrictions on withdrawal and transfer, lack of liquidity, volatility, lack of diversification, use of leverage, currency and exchange rate risks and other risks of foreign investments, conflicts of interest, incentive fees and other risks set forth in the applicable prospectus or confidential private placement memorandum. To the extent that a portfolio manager invests in private securities or restricted securities, the valuation of such securities will be determined by the portfolio manager, whose determination will be final and conclusive as to all parties. The value established may not reflect accurately the amount that could be realized if the securities were sold.

## **EQUITY SECURITIES**

*Small and Medium Capitalization Companies.* In addition to large capitalization companies, certain portfolio managers may invest in the securities of companies with small- to medium-sized capitalizations. While the securities of such companies often provide significant potential for appreciation, smaller-capitalization stocks involve higher risks in some respects than do investments in the securities of larger companies. For example, prices of small-capitalization and even medium-capitalization stocks are often more volatile than prices of large-capitalization stocks, and the risk of bankruptcy or insolvency of many smaller companies (with the attendant losses to investors) is higher than that for larger, “blue-chip” companies. In addition, due to thin trading in some small-capitalization stocks, an investment in such securities may be relatively illiquid.

*International Securities.* Investing in international securities may be accomplished through mutual funds, American Depositary Receipts, U.S.-traded foreign stocks or direct investment in foreign markets. Such investments require consideration of certain risks typically not associated with investing in U.S. securities or property, including, among other things: increased transaction fees; slower and less certain trade settlements; trade balances and imbalances and related economic policies; impositions of exchange control regulation by the United States or foreign governments; United States and foreign withholding taxes; restrictions on the removal of funds or other assets; political and economic considerations, such as greater risks of expropriation of assets, confiscatory taxation, nationalization and general social, political and economic instability; the small size of the securities markets in such countries and the low volume of trading, resulting in potential lack of liquidity and price volatility; fluctuations in the rate of exchange between currencies, and costs associated with currency conversion; certain government policies that may restrict investment opportunities; and in some cases less effective government regulation than is the case with securities markets in the United States. There may be less publicly available information about certain foreign companies than there would be in the case of comparable companies in the United States. Certain foreign companies may not be subject to accounting, auditing, financial reporting or corporate governance standards and requirements comparable to those of United States companies.

*Preferred Stock.* Preferred stock is a class of equity ownership in a corporation that generally pays fixed, steady dividends. These dividend payments must be made to preferred shareholders before common shareholders, and in the event of liquidation, preferred shareholders have priority over common shareholders on a company's assets. However, preferred stocks do not usually have voting rights. The precise terms and conditions of preferred shares vary according to agreement. For example, one form of preferred stock, convertible preferred stock, may be converted to a specific number of shares of common stock. Investors seeking an opportunity to realize capital gains may want to utilize this option.

*Speculative Securities.* Some selected managers may make certain speculative purchases of securities. Such purchases may include securities of companies that are involved in, or may be involved in, corporate restructurings, securities that the manager believes are misvalued because of an extraordinary event, or securities that are expected to undergo a change in value because of an expected occurrence. Some selected managers may also make concentrated investments in securities of companies that may be or may become targets for takeovers. If a manager purchases securities in anticipation of an acquisition attempt or reorganization or with the intention to influence the management and policies of the issuer of the securities, and an acquisition attempt or reorganization does not in fact occur or the manager is not able to so influence the issuer of the securities, the securities may have to be sold at a material loss.

*Distressed Securities.* Some selected managers may invest in securities of issuers in weak financial condition, experiencing poor operating results, having substantial capital needs or negative net worth, confronting significant legal or regulatory problems, or that are involved in bankruptcy or reorganization proceedings. Investments of this type may involve substantial financial and business risks that can result in substantial or at times even total losses. Among the risks inherent in investments in troubled entities is the fact that it frequently may be difficult to obtain information as to the true condition of such issuers. Such investments also may be adversely affected by federal and state laws relating to, among other things, fraudulent transfers and other voidable transfers or payments, lender liability and the U.S. Bankruptcy Court's power to disallow, reduce, subordinate or disenfranchise particular claims. The market prices of such securities are also subject to abrupt and erratic market movements and above-average price volatility, and the spread between the bid and asked prices of such securities may be greater than those prevailing in other securities markets. It may take a number of years for the market price of such securities to reflect their intrinsic value. In addition, because fewer bidders for securities of financially troubled companies exist, such securities may be or become illiquid. For any given period of time, the investments of one or more select managers may be concentrated in a relatively small number of

positions, with the attendant risk that fluctuations in the value of a small number of positions will significantly affect the value of the portfolio.

## **BONDS**

Corporate bonds are debt obligations issued by public and private corporations. The corporation generally pays a stated rate of interest until the principal is repaid on the maturity date. Marketability allows an investor to sell before maturity. Corporate bonds differ from municipal bonds in that the interest payments are taxable. Corporate bonds generally provide a higher yield than municipal bonds, but they may also carry higher risk.

Municipal bonds are debt securities issued by states, cities, counties and other governmental entities to finance public projects. As return for the investment, these bonds generally pay a stated rate of interest until repayment of the principal upon maturity. The bond market permits an investor to sell before maturity. Municipal bonds are conservative investments, since they seek to preserve principal while paying out a regular income. A primary advantage of municipal bonds is that the interest received is generally exempt from federal taxation and may be exempt from state and local taxes.

## **MANAGED FUTURES**

Managed futures products may be used in advisory products for qualified investors. Offering clients the potential opportunity to profit in both rising and falling markets, managed futures provide significant growth potential along with commensurate risk. Professional money managers direct managed futures investments in the global currency, interest rate, equity, metal, energy, agricultural and other markets through the use of futures, forwards and options. The number and variety of markets traded in managed futures investments may add substantial diversification to an investment portfolio, and may enhance risk-adjusted rates of return.

Typically, managed futures investments are speculative, involve a high degree of risk, have substantial charges and are suitable only for the risk capital portion of a qualified investor's portfolio. Only investors who are financially eligible and willing to accept managed futures' inherent fluctuations should consider managed futures investments. Suitability standards for certain public futures funds and private placement funds are higher and vary from state to state and by offering. Because these investments can be volatile, they should be positioned for the long-term. Investors are cautioned that they could lose all or substantially all of their managed futures investments. Before investing in managed futures and in order to make an informed decision, investors should read the applicable prospectus (or similar disclosure document) carefully for complete information, including charges, expenses and risks.

**For additional information on Types of Investments please read carefully LCM's ADV, Part II, LIS, LAAP and LIS<sup>2</sup> Brochure or Lockwood's ADV, Part II Schedule H (Managed Account Advisor Wrap Fee Brochure.**

### **NON WRAP FEE PRODUCTS**

KIS provides its clients with financial planning services for (among others):

- Asset Allocation
- Education and other Accumulation Goals
- Retirement
- Life, Disability and Long Term Care Protection

KIS offers these services through the use of multiple computer modules developed by SunGard Data Systems which generate a comprehensive plan. Active Monte Carlo simulation may be used to risk and stress test the plan. KIS may or may not render advice as to the purchase of particular securities, and may offer life, disability or long term care insurance through its affiliated insurance agency, KeyCorp Insurance Agency USA, Inc. (“KIA”).

No fee is charged for this service at present.

KIS Financial Advisors do not receive referral fees or commissions from the products and services selected to implement a financial plan but may receive a portion of any management fees or insurance commissions paid. However, KIS may receive compensation from unaffiliated entities, such as broker-dealers, advisors or insurance agencies, for the referral of clients to them for their products or services. In addition, if a client elects KIS or an affiliate as the entity whose products and services will be used to carry out the financial plan’s recommendations, KIS and/or the affiliate will receive customary commissions and fees associated with their products and services. Whether or not KIS or an affiliate is selected as the provider of products and services, all commissions, advisory or other fees and charges incurred by client are the responsibility of the individual client.

See also “Fee Information” and “Conflicts of Interest and Other Disclosures.”

### **REVIEW OF ACCOUNTS**

Before a wrap fee account is recommended, the KIS Financial Advisor makes reasonable efforts to obtain information about the client’s financial status, investment objectives, trading history, size of portfolio, nature of securities held and account diversification. Based on these factors and any other relevant information, the Financial Advisor considers whether the account recommended is appropriate in light of the services provided, the projected cost to the client, alternative fee structures that may be available, and the client’s fee structure preferences. Continued suitability is also monitored.

Investment managers monitor and review their clients’ accounts pursuant to their own compliance and supervisory systems of account review. LCM or Lockwood advisory personnel review client accounts quarterly by comparing their performance with comparable indices to detect deviations. Accounts with performance deviations are subjected to further scrutiny.

### **FEE INFORMATION**

KIS is generally compensated on the basis of fees calculated as a percentage of assets under management, and may also on occasion be compensated through fixed-fee arrangements. Fees that are calculated as a percentage of assets under management are generally charged quarterly in advance, based upon the

average daily balance of assets under management, including money market and other cash equivalent assets, during the prior quarter. All fees are deducted from the account unless otherwise agreed.

KIS or the client may generally terminate client agreements at any time by written notice. If a client terminates the agreement within five (5) business days after it has been signed by the client and accepted by KIS, the client generally will receive a full refund of all fees and expenses. If an agreement is terminated at any time after five (5) business days of its signing and during a quarter, the client will be entitled to a pro rata refund of any prepaid fees, in each case based upon the number of days remaining in the quarter after the date upon which notice of termination is received.

For all wrap fee products, clients are charged a wrap fee every calendar quarter for services that generally include advisory, transactional and custodial services. KIS shares a portion of the wrap fee with the underlying money manager(s) selected. No wrap fee adjustments are made for any billing period with respect to partial withdrawals within a billing period. Wrap fees do not include exchange fees, transfer taxes, electronic fund and wire transfer fees, odd-lot differentials and fees required by law, fees that cover services rendered by KIS affiliates or redemption fees, mark ups, mark downs or spreads paid to market makers or other transaction or product based fees.

Because KIS's advisory fees (and LCM's and Lockwood's portion of the fees) are based on assets under management, KIS, LCM and Lockwood have a conflict of interest in valuing securities held in client accounts, since a higher valuation produces higher advisory fees. In order to ensure that client assets are accurately valued, for purposes of calculating fees where Pershing acts as the client's custodian, securities listed on any national securities exchange shall be valued, as of the valuation date, at the closing price on the principal exchange on which they are traded. Any other securities or investments shall be valued in a manner determined in good faith to reflect fair market value. Any such valuation should not be considered a guarantee of any kind whatsoever with respect to the value of the assets. Pershing may use the services of an independent evaluator, as well as other independent sources with respect to the computation of market value of securities. The data contained in those reports is obtained from recognized sources and is believed to be reliable but has not been verified by Pershing. In cases in which Pershing is not the client's custodian, the client's custodian will provide valuations of securities.

Investments in mutual funds and ETFs are subject to various other fees that are paid by those portfolios, but ultimately borne by shareholders. These expenses, which are described in the portfolios' prospectuses, may include investment advisory, administrative, distribution, transfer agent, custodial, legal, audit, and other customary fees related to investment in mutual funds.

Fees may be negotiated. In KIS's discretion, certain related accounts may be aggregated for purposes of applying the appropriate blended fee schedule. Account minimums may also be waived in KIS's discretion. KIS may also charge different fees than the fees summarized in this brochure, based upon a number of factors, such as additional assets under management in different programs, other business relationships with the client, and other factors deemed relevant by KIS.

#### **OTHER BUSINESS ACTIVITIES OF KEY INVESTMENT SERVICES LLC**

KIS is engaged in businesses other than acting as an investment adviser, including the offer or sale of investment products to clients. KIS is a registered broker-dealer pursuant to the Securities and Exchange Act of 1934 and various state securities laws. It also has affiliations with other broker-dealers, investment companies and investment advisors. KIS's principal business is acting as a broker-dealer in securities. KIS (through KeyCorp Insurance Agency USA, Inc.) also acts as an insurance agent in the sale of various types of insurance products.

## **CONFLICTS OF INTEREST AND OTHER DISCLOSURES**

The fact that different products may represent different levels of compensation to Financial Advisors creates conflicts of interest for those Financial Advisors, who may favor products in which Financial Advisor payout is greater. See also “Fee Information” and “About KeyCorp and Key Investment Services LLC.”

### **PERSHING, LCM AND LOCKWOOD**

Pershing, LCM and Lockwood are affiliates. For further information concerning Pershing, LCM and Lockwood, and conflicts of interest which may arise, please read carefully LCM’s ADV Part II, Schedule H and Lockwood’s ADV Part II, Schedule H.

### **WRAP FEE ARRANGEMENTS**

A client who participates in a wrap fee arrangement should consider that, depending on the level of the wrap fee charged, the amount of portfolio activity in the client’s account, the value of the custodial and other services which are provided under the arrangement, and other factors, the wrap fee may or may not exceed the aggregate cost of such services if they were to be provided separately. Because the wrap fee may be greater than would have been the case if the client paid separately for investment advice and brokerage and other services or participated in another program, Financial Advisors may have an incentive to recommend the wrap fee programs over alternative programs or over the purchase of such services separately. There is also a potential conflict in wrap fee arrangements in that limiting the amount of trading in an account would increase KIS’s net income from wrap fees. Because wrap fee accounts, within trading limits, do not impose brokerage commissions, the best interests of the client (trading when appropriate) may differ from the self-interest of Financial Advisors and KIS (no trading).

### **BROKERAGE DISCRETION AND BEST EXECUTION**

Because a wrap fee covers transactions only when executed through KIS or its affiliates, transactions for the purchase or sale of securities and other investments in wrap fee accounts will ordinarily be affected by KIS through its clearing firm, Pershing. Pershing has primary responsibility for ensuring best execution under the Fully Disclosed Clearing Agreement agreed to by KIS and Pershing.

Transactions in wrap fee accounts will be executed through a broker-dealer other than Pershing or their affiliates only when required by applicable law, when KIS, LCM, Lockwood or an investment manager reasonably believes in good faith that such other broker-dealer will provide better execution than Pershing, or when requested by the client.

KIS, Pershing, LCM or Lockwood may offer and provide other services to clients who, in addition to participating in KIS’s investment advisory programs, have other relationships with KIS, Pershing, LCM or Lockwood and, accordingly, KIS, Pershing, LCM or Lockwood may receive additional compensation for such services, including compensation in the form of commissions or fees in connection with the purchase or sale of securities in client accounts outside these programs. Generally, the commission rates payable by such clients are negotiated.

## **MUTUAL FUND FAMILIES**

KIS receives payments from mutual fund families, including The Victory Funds, in addition to any servicing fees or 12b-1 fees received, which payments are used to help defray various costs, including the costs of training and continuing education offered by KIS and made available to such fund families. KIS Financial Advisors do not receive any portion of these payments.

## **INCENTIVE AND REFERRAL FEES**

From time to time, KIS may provide additional compensation to its personnel in connection with new accounts opened and/or additional amounts added to advisory client accounts during specified periods of time. Such personnel may, therefore, have a financial incentive to recommend these products over other programs or services.

## **CODE OF ETHICS**

KIS has adopted an Investment Advisory Code of Ethics (the “Code”), which declares its fiduciary duties, and those of its advisory personnel, to investment advisory clients. The Code also requires KIS’s “access persons” to periodically report their personal securities transactions and holdings to KIS’s Investment Advisory Chief Compliance Officer (the “CCO”), who reviews or supervises review of these reports for compliance with the Code. The Code also restricts access to material nonpublic information regarding KIS’s securities recommendations and client securities holdings and transactions, and in certain circumstances may require pre-clearance by the CCO before access persons may invest in either an initial public offering or a private placement of securities. The Code requires prompt internal reporting of perceived violations, and requires that appropriate records be kept of matters relating to compliance with the Code. Any KIS advisory client will be provided with a copy of the Code upon request.

KIS, participating investment managers and their affiliates may perform, among other things, research, brokerage, asset management and similar services for a number of clients and receive wrap and other fees for such services. The advice given and the actions taken with respect to a particular client may differ from the advice given or the timing and nature of action taken with respect other clients’ accounts. Transactions in a specific security may not be accomplished for all clients’ accounts at the same time or at the same price. In managing a client’s account, an investment manager may recommend the purchase or sale of securities in which KIS, the investment managers or their affiliates, directly or indirectly, have or may acquire a position or interest. KIS, the investment managers or their affiliates may, in the course of business, obtain material, non-public or other confidential information that, if disclosed, might affect an investor’s decision to buy, sell, or hold a security. All are restricted from disclosing or using this information under applicable law, and are under no obligation to disclose the information to any client or use it for any client’s benefit.

KIS may recommend or effect the purchase, exchange or redemption of securities on which it, a related person, or any of their respective officers, directors or employees, directly or indirectly, has a position or interest, or of which it, any related person or any affiliated person buys or sells for itself. Such transactions may also include trading in securities in a manner inconsistent with the advice given to KIS’s clients. Affiliated persons of KIS and its related persons may themselves be advisory clients. Personal securities transactions by affiliated persons of KIS or its related persons may raise potential conflicts of interest, as when an employee owns or trades in a security that is owned or considered for purchase or sale by a client, or recommended for purchase or sale by an employee to a client. KIS has policies and



procedures that are designed to detect and prevent such conflicts of interest. In addition to various specific trading restrictions, employees are required to report their personal securities transactions, and KIS's compliance personnel monitor these reports.

## **PRIVACY**

Privacy is an important issue. KeyCorp's Privacy Policy is initially given to the client upon the opening of an account and is subsequently provided at least annually thereafter and also upon request to KIS advisory clients.

## **ABOUT KEYCORP AND KEY INVESTMENT SERVICES LLC**

KeyCorp, organized in 1958 under the laws of the state of Ohio, is headquartered in Cleveland, Ohio. It has elected to be a bank holding company and a financial holding company under the Bank Holding Company Act of 1956, as amended. At December 31, 2009, KeyCorp was one of the nation's largest bank-based financial services companies with consolidated total assets of \$93 billion. Its subsidiaries provide a wide range of retail and commercial banking, commercial leasing, trust and investment management, consumer finance and investment banking products and services to individual, corporate and institutional clients through two major business groups, Community Banking and National Banking.

KIS's principal business is as an introducing broker-dealer registered with the U.S. Securities and Exchange Commission, Financial Industry Regulatory Authority, and various other regulatory bodies. As a broker-dealer, KIS may provide a variety of services (including non-advisory services) and render advice as to the value and/or advisability of purchasing or selling securities, without receiving special compensation and solely incidental to the conduct of its business as a broker-dealer. The principal business of KIS's executive officers is the day-to-day management of the broker-dealer activities. KIS also provides advisory and/or brokerage services through other programs as described in this brochure. Certain of KIS's affiliates also provide investment banking, foreign exchange, interest rate risk and equity risk management services and equity and fixed income proprietary research.

KIS Financial Advisors may also act as insurance agents for the sale of insurance products and policies that are available through KeyCorp-affiliated insurance agencies. KIS Financial Advisors may recommend the purchase of insurance products to clients and may receive commissions in connection with such purchases.

Various affiliates of KIS sponsor investment-related limited partnerships and limited liability companies and serve as general partner and manager, respectively, of such entities. KIS generally does not recommend that its advisory clients invest in these entities, and has no arrangements that are material to its advisory business or its clients with any of these entities, or with their affiliated sponsors with respect to such entities.

KeyBank National Association is the KeyCorp subsidiary which owns KIS.

KeyCorp's bank and trust company subsidiaries offer personal and corporate trust services, personal financial services, access to mutual funds, cash management services, investment banking and capital markets products, and international banking services. Through its bank, trust company and registered investment subsidiaries, KeyCorp provides investment management services to clients that include large corporate and public retirement plans, foundations and endowments, high net worth individuals and Taft-Hartley plans.

Victory manages or gives advice regarding investment portfolios for a national client base, including corporations, labor unions, not-for-profit organizations, governments and individuals. These portfolios may be managed in separate accounts, common funds or the Victory family of mutual funds.

*The Victory Funds, an Affiliated Fund Family.* Non-retirement accounts and non-discretionary retirement accounts (including non-discretionary accounts subject to ERISA and non-discretionary individual retirement accounts (IRAs)) may be invested in money market mutual funds or other funds sponsored by Victory, which serves as investment adviser to The Victory Funds. Victory receives investment management fees from The Victory Funds as set forth in The Victory Funds' prospectus, and it or its affiliates may receive other compensation in connection with the operation and/or sale of shares of connection with investments in The Victory Funds. KIS may also receive distribution fees in connection with investments in The Victory Funds. Assets of these accounts invested in The Victory Funds are included in advisory fee calculations by KIS and no portion of The Victory Funds' advisory, administrative or distribution fees will be offset against the wrap or other advisory fees charged under the Programs. Except as permitted by law and otherwise disclosed in this brochure, the assets of discretionary retirement accounts, including accounts subject to ERISA and individual retirement accounts, will not be invested in shares of The Victory Funds.

#### **EDUCATION AND BUSINESS STANDARDS**

In general, KIS requires that its employees associated with its investment programs have substantial experience in the investment advisory and/or brokerage industries. Such individuals have obtained a college degree in the area of business, finance, economics or a related field or related financial and/or professional experience.

KIS requires that all individuals involved in determining or giving investment advice to clients have at least two years' experience in the industry and participate in periodic training programs relating to investments and investment advice. In addition, each individual who sells advisory products directly to a client must successfully complete the appropriate Series 7, 63 and 65 or Series 7 and 66 examinations administered by the Financial Industry Regulatory Authority.

#### **EDUCATION AND BUSINESS BACKGROUND**

The following brief biographical information describes personnel at KIS who are either principal executive officers or have supervisory responsibility with regard to the Programs.

##### **Marc Vosen, President / Chief Executive Officer**

*Year of Birth:* 1953

*Formal Education after High School:* Attended the Ohio State University, 1972 – 1976

*Business Background for Preceding Five Years:* President, Key Investment Services LLC, 2005 – Present; Managing Director, McDonald Investments Inc. Bank Channel Investment Program, 2004 – 2005; President, First Merit Investment Services, 1993 – 2004.

##### **Paul Hansen, Chief Operations Officer**

*Year of Birth:* 1963

*Formal Education after High School:* John Carroll University, B.S., Economics

*Business Background for Preceding Five Years:* Chief Operations Officer, Key Investment Services LLC, 2005 – Present; Brokerage Operations Management, McDonald Investments Inc., 2002 – 2005.

**Gary Marousek, Chief Compliance Officer**

*Year of Birth:* 1956

*Formal Education after High School:* Case Western Reserve University, M.B.A.; Miami University, B.S.

*Business Background for Preceding Five Years:* Chief Compliance Officer, Key Investment Services LLC, 2005 – Present; Vice President, Compliance Director, Charter One Securities, 2000 – 2005.

**Lawrence Martin, Chief Financial Officer**

*Year of Birth:* 1944

*Formal Education after High School:* Ohio University, B.A. Business Administration

*Business Background for Preceding Five Years:* Chief Financial Officer, Key Investment Services LLC, 2005 – Present; Chief Financial Officer, Charter One Securities, 2000 – 2005.

**Paul Weick, Chief Legal Officer**

*Year of Birth:* 1955

*Formal Education after High School:* University of Akron, J.D.; Yale University, B.A.

*Business Background for Preceding Five Years:* Senior Vice President and Managing Counsel, Key Investment Services LLC, 2007 – Present; Senior Vice President and Managing Counsel, McDonald Investments Inc., 2004 – 2007