



## ADV BROCHURE, PART 2A

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# Ken Roberts Investment Management, Inc.

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This brochure provides information about the qualifications and business practices of Ken Roberts Investment Management, Inc. If you have any questions about the contents of this brochure, please contact us at (509) 624-5591 or (800) 624-3833. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Ken Roberts Investment Management Inc. is also available on the SEC's website at: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## II. Material Changes

Ken Roberts Investment Management, Inc.'s ("KRIM") most recent annual update to Part 2 of Form ADV was completed on March 31, 2011. Material changes to KRIM's business activities since the time of that update:

None

## III. Table of Contents

I.	Cover Page .....	1
II.	Material Changes.....	2
III.	Table of Contents .....	2
IV.	Advisory Business.....	2
V.	Fees and Compensation.....	3
VI.	Performance Based Fees and Side-by-Side Management .....	6
VII.	Types of Clients .....	6
VIII.	Methods of Analysis, Investment Strategies and Risk of Loss.....	6
IX.	Disciplinary Information .....	8
X.	Other Financial Industry Activities and Affiliations .....	8
XI.	Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.....	8
XII.	Brokerage Practices.....	9
XIII.	Review of Accounts .....	12
XIV.	Client Referrals and Other Compensation.....	13
XV.	Custody .....	14
XVI.	Investment Discretion .....	14
XVII.	Voting Client Securities .....	14
XVIII.	Financial Information.....	15
XIX.	Other Information.....	15

## IV. Advisory Business

KRIM provides discretionary investment advisory services primarily for individuals, corporations, public and private pension plans, endowments, and foundations. Discretionary client portfolios may invest in equities, fixed income, open or closed end mutual funds, exchange traded funds (ETFs) or a combination of the above depending upon the KRIM investment strategy selected by the client. A portion of the client's portfolio may also be invested in short term instruments (such as cash equivalents or money market funds) as a result of the normal buying and selling discipline in the portfolio management process (taking into account prevailing market conditions and the KRIM investment strategy discipline.

Discretionary clients deposit account assets with their selected custodian and then they typically work with their financial consultant to determine an investment strategy based on personal circumstances, objectives, and risk tolerance. Clients choosing KRIM to provide investment advisory services sign an investment advisory agreement giving KRIM the authorization to effect security transactions on behalf of their portfolio. Portfolio Managers at KRIM provide investment advice specific to assets placed under management and the strategy selected. Within the Investment Management Agreement, the client must provide specific financial information as well as their desired investment strategy.

The discretionary portfolios are individually managed and monitored based on subjective and objective analysis of fundamental and technical factors. In addition cyclical analysis is used to determine what may appear to be appropriate investments based upon economic and industry business cycles. Account positions are monitored continuously and portfolio changes are made as deemed appropriate. Because accounts are managed individually, portfolios with the same or similar investment objectives may differ as to securities held and performance achieved.

In addition, KRIM has entered into agreements with other financial firms (Model Program Sponsors) to provide non-discretionary model portfolio investment recommendations. These Model Program Sponsors use the information supplied by KRIM to provide investment management services to their clients. The Model Program Sponsors retain discretion to accept, modify, or reject KRIM's recommendations and are responsible for executing any trades. The Model Program Sponsor's clients are not KRIM clients.

In some cases, KRIM has been retained as an investment manager under a wraparound fee or so-called "wrap-fee" arrangement for separately managed account programs sponsored by certain unaffiliated broker-dealers (the "Program Sponsors"). Under such wrap-fee arrangements, Program Sponsors may recommend that a client retain KRIM as an investment advisor, pay investment advisory fees on behalf of the client, monitor and evaluate KRIM's performance, execute the client's portfolio transaction without commission charge, and provide custodial services for the client's assets, all for a single fee paid by the client to the Program Sponsor. Wrap-fee arrangements generally involve the client entering into an investment advisory agreement with the Program Sponsor while KRIM enters into a sub-advisory agreement with the Program Sponsor or, the client entering into an investment management agreement directly with KRIM and a separate agreement with the Program Sponsor. For more information regarding any of the wrap-fee programs offered by any of the Program Sponsors in which KRIM participates, please see Schedule D of each Program Sponsor's Form ADV Part 1 as well as Appendix 1 of their Form ADV Part 2.

KRIM is not responsible for certain functions typically completed by or with a broker/custodian, i.e. calculation of required minimum distribution, referring of other financial solutions such as life insurance, annuities, other financial planning, etc., processing of deposits and withdrawals, wiring of funds, custodial address-of-record changes, calculation of breakpoint discounts for mutual fund investments, tax reporting, initial selection of money market funds, asset allocation studies, SIPC or account protection coverage, etc.; this list is in no way meant to be all-encompassing. Clients should review the financial stability and insurance carried by their chosen custodian. KRIM carries no liability for any loss resulting from any financial instability, insolvency of the custodian, or acts of the employees of the custodian. Insurance carried by the custodian may or may not provide full protection for losses. Clients should contact their financial consultant with questions regarding their custodian.

KRIM does not offer or provide tax, legal, or accounting advice, nor is KRIM responsible for tax reporting for clients. Dividends, interest, and capital gains generated in a Client's account may be subject to taxation. Implementation of, or a change to the investment strategy may create a taxable event for the client. Cost basis (as provided by the client) information provided in KRIM's quarterly reports (as applicable) is provided for information purposes only and should not be used for tax preparation. All tax or legal related inquiries should be directed to a qualified tax professional or legal counsel.

Clients should always deposit securities or funds directly with their respective custodians, not with KRIM.

KRIM was founded in 1991 and is owned by Kenneth M. Roberts. KRIM was granted SEC registration in 1994 (*SEC registration does not imply a certain level of skill or training.*). As of September 30, 2011, KRIM managed approximately \$197 million in discretionary assets on behalf of approximately 720 clients.

In addition to the above services KRIM has been engaged by a third party financial services firm to provide general broad market commentary on a limited basis. Under the terms of this agreement neither KRIM nor any KRIM employee provides information or advice regarding individual securities, generates research reports, or acts as a research analyst on behalf of this third party.

## **V. Fees and Compensation**

### **Management Fees-General Conditions**

*See appropriate section below for information specific to the type of Managed Account Program*

KRIM's fee for managing portfolios is paid every three months, generally in advance based on the value of the account on the last business day of the preceding calendar quarter.

#### EQUITY/CASH

<u>Annual Fee</u>	<u>Account Value</u>
1.00% of the first .....	\$500,000
0.75% of the next .....	\$4,500,000
0.50% of the excess over .....	\$5,000,000

#### INCOME

<u>Annual Fee</u>	<u>Account Value</u>
0.80% of the first .....	\$500,000
0.70% of the excess over.....	\$500,000

#### BALANCED

<u>Annual Fee</u>	<u>Account Value</u>
0.800% of the first .....	\$500,000
0.625% of the next .....	\$4,500,000
0.450% of the excess over .....	\$5,000,000

KRIM does not combine or household the balances of multiple accounts belonging to any one client for the purpose of calculating management fees.

Either party may terminate the Investment Management Agreement at any time upon written notice. Termination of the agreement does not affect or preclude the consummation of any transaction initiated prior to termination. In the event of termination, a pro-rata management fee will be calculated based on the date of notification to KRIM or in the case of a wrap account based on the date as determined by the Program Sponsor. The client will then be charged the pro-rata fee or refunded the unused portion in the event that the client had already paid their full quarterly management fee.

KRIM's fee (or KRIM's portion of a wrap fee) does not include any transaction costs, execution, or other service, brokerage, or custody charges. Fees may be waived or reduced for the accounts of KRIM and KRIM employees and their family members. Fees can be negotiated and may be offered by KRIM at lower rates depending upon the circumstances and size of the account. Lower fees for comparable services may be available from other sources.

#### **Management Fees-Non-Wrap Programs**

The annual compensation received by KRIM is based upon a percentage of the market value of the assets under management using trade date accounting. The management fees charged by KRIM are separate and distinct from the fees and expenses charged by the client's broker-dealer, custodian, or fund (if mutual funds are held in a client's account).

If the account is accepted after the first day of a calendar quarter, the fee for the initial quarter will be pro-rated based on the number of days left in the quarter and the opening balance of the account as provided by the client's broker/custodian. The effective date for billing on new accounts is generally the date in which KRIM accepts the Investment Management Agreement.

Payment of fees can be made directly by the client; or the client may authorize, in writing, their qualified custodian to debit fees from their account. The client's qualified custodian must send to the client a statement, at least quarterly, identifying the amount of funds and each security in the account at the end of the period and set forth all transactions in the account during that period.

Clients occasionally request that their account be placed in a frozen or suspended status and temporarily removed from active management. In the event of a freeze for legal reasons (legal referring to death, title change, divorce, etc.), a pro-rata refund of the fee, which had been paid in advance, will be made for the period that the account was in frozen status. In circumstances that are for non-legal reasons KRIM will continue to charge the management fee. It is the responsibility of the client to notify KRIM when an account is to be placed in or removed from frozen

status; however KRIM will accept indications of account status change from the financial consultant (which are followed with a letter sent to the client indicating the change in status).

### **Management Fees-Wrap Programs**

A Wrap Program involves a single fee (wrap fee) paid by the client to the Program Sponsor for all investment advisory, custodial, and other services. The Program Sponsor is responsible for calculating the wrap fee, a portion of which is forwarded to KRIM as management fees. The annual fee paid by the client to the Program Sponsor is generally in the range of 1%-3% of the clients assets under management, with KRIM's portion of the fee generally being .50% annually. The Program Sponsor may calculate their fees based on trade date or settlement date accounting. New accounts are billed based on the date the account is approved (which may differ from the KRIM inception date) for eligible assets (as determined by the Program Sponsor) for a prorated portion of the quarter; the Program Sponsor may include the next full quarter with the initial billing. Certain Wrap Programs may charge a minimum fee, an additional fee for contributions during the quarter, and generally do not refund for significant withdrawals, for assets moved to an unsupervised status, or for periods that an account may be frozen or suspended. Please consult the Program Sponsor's Disclosure Brochure/Document for details regarding billing procedures.

### **Brokerage Fees**

Fee-in-lieu-of-commission brokerage fee arrangements or Wrap Program Fee arrangements may not include certain costs or charges associated with securities transactions, including, but not limited to dealer mark-ups or mark-downs, auction fees, odd-lot differentials, exchange fees, transfer taxes, electronic fund and wire transfer fees, specialized account fees (i.e. checking or IRA maintenance fees), interest on debit account balances, fees and expenses charged or incurred by ownership of mutual funds in the account, any charges mandated by law and if applicable certain prototype/custodial fees in connection with trust services rendered by the client's broker/custodian. These brokerage fees (total wrap fee or otherwise) are not controlled in any way by KRIM and KRIM may not be aware of the total brokerage compensation.

Clients may wish to consider these types of fee arrangements if it appears suitable to meet the client's investment objectives. In some circumstances, it is possible that the fee charged to clients to participate in the various programs offered by brokers may result in higher overall charges to a client than if the fee were to be completely unbundled and commissions were to be charged separately. Furthermore, other brokers/custodians and investment advisors may offer similar fee arrangements that may be more or less costly. In evaluating such an arrangement, the client will want to give special attention to the Disclosure Brochure/Document (if applicable) of the broker-dealer or custodian. Further disclosure regarding these arrangements is provided in the **Brokerage Practices** section below.

Generally for accounts requiring trading of fixed-income securities, the securities for or in the account are purchased and sold on a net basis and the executing broker may retain compensation in connection with such transactions.

Besides paying investment management fees to KRIM as well as the fees paid to brokers as enumerated in previous paragraphs, clients pay management fees on assets invested in mutual funds, which pay advisory fees to the managers of such funds. These funds include money market funds that may or may not be affiliated with the brokers/custodians as well as closed or open-end funds and exchange traded funds that KRIM may purchase for investment for clients. In the event that a client opens an account with KRIM in which all or a portion of the account is invested in a mutual fund(s), KRIM may sell all or a portion of such investment and that investment may be subject to early redemption fees. Clients are urged to review the Prospectus and Statement of Additional Information of each mutual fund for a more complete description of the fees and expenses.

### **Model Portfolios**

KRIM does not maintain any standard fee schedule with respect to these services; the fees paid to KRIM by the Model Program Sponsors and termination conditions are subject to the terms agreed upon in the agreement between the Model Program Sponsor and KRIM.

## **VI. Performance Based Fees and Side-by-Side Management**

KRIM does not charge any performance fees (fees based on a share of capital gains or capital appreciation of the assets of a client's account). Some investment advisers experience conflicts of interest in connection with the side-by-side management of accounts with different fee structures. However, these conflicts of interest are not applicable to KRIM.

## **VII. Types of Clients**

KRIM provides discretionary investment advisory services primarily for individuals, corporations, public and private pension plans, endowments, and foundations.

KRIM's standard minimum account size is \$100,000. KRIM reserves the right to waive the required minimum based on individual client needs or circumstances.

All discretionary clients are required to enter into a written Investment Management Agreement, and under such agreement may be required to provide additional documentation/personal information prior to the establishment of an advisory relationship. The agreements required by Program Sponsors and/or KRIM for wrap-fee accounts may vary from those listed here.

### ***Model (UMA) Programs***

KRIM also offers investment advisory services to Model Program Sponsors in the form of model portfolios based on one or more of its investment strategies. Program Sponsors utilize the model portfolios to provide investment services to their clients in the same manner as the wrap-fee arrangements described above. However, it is up to the Model Program Sponsor to accept, modify, or reject KRIM's recommendations.

## **VIII. Methods of Analysis, Investment Strategies and Risk of Loss**

### **General**

The basic foundation of the investment process of KRIM is fundamental analysis of sectors, industries, and companies in order to determine areas that may appear attractive for investment. In addition, technical analysis tools may be used if it appears that value can be added to the fundamental analysis that is being made. Analysis of business cycle and general economic trends, including interest rate movements is made on an ongoing basis to determine the allocation between equities and other asset classes based on the options available within the client's investment strategy.

### **Equity Investment**

Generally, individual equity analysis is made using company shareholder reports, filings made with the Securities and Exchange Commission, company press releases, articles in newspapers, magazines and other financial publications, research materials prepared by others, and may include company visits, conference calls, and/or interviews with company management. Analysis of individual companies may include several measures of valuation, such as price/earnings ratios, price/sales ratios, price/cash flow ratios, dividend yield, the relationship of stock price to book value, as well as analyzing reserve values in the case of natural resource companies or other methods of security analysis. The focus of this analysis is to form an opinion as to whether the present price of an equity security appears undervalued in light of the investment fundamentals and current investor psychology.

### **Diversified Income Investment**

The investment process begins with a top-down approach by assessing which income producing asset classes provide the most desirable risk reward scenario on a relative basis. Flexibility among asset classes allows the portfolio managers to focus on market segments that appear more desirable and avoid those with less opportunity. Many factors are included in this analysis such as current fiscal and monetary policies, current interest rates, relative yields on dividend producing equities, and the current economic outlook. Once the weightings of the

various asset classes are determined, the portfolio management team then begins its fundamental research process on individual investments within those asset classes. The equity analysis focuses on a company's ability to maintain or grow its dividend, although capital appreciation will also be considered. Fixed income or preferred stock analysis includes interest rate outlook, yield curve analysis, and credit analysis. The portfolio may also be invested in specialty asset classes utilizing open and closed end mutual funds, ETFs, and REITS for their unique characteristics. The portfolio is monitored and tactical adjustments will be made as relative value parameters change among asset classes or industry groups.

### **Fixed Income Investment**

Fixed income investment management centers upon assessments of economic activity, Federal Reserve policy, capital market fund flows, and the influences upon interest rates by developments overseas. From this analysis, forecasts are made for short and long term interest rates using U.S. Treasury securities as a benchmark. Added yield is evaluated versus risk. Interest rate differentials between corporate, U.S. Government Agency, and U.S. Treasury, and municipal securities are considered in allocating assets among these classes of debt instruments. Analyses of economic, political and capital market developments, as well as the investment goals of each client determine which maturity range of fixed income investments appear suitable for each client. Corporate bonds and municipal investments are selected primarily upon the maturity date and quality rating that appears appropriate for clients' investment objectives. Fixed income investments may include preferred stock and bond funds. While fixed income securities can play an important role in stabilizing diversified portfolios, no security is entirely risk-free; safety of principal is not guaranteed and such investments are subject to interest rate, inflation, credit, liquidity, and default risks. KRIM generally classifies commercial paper with a maturity of 6 months or less in a sub category of cash and cash equivalents.

Clients must be willing and able to assume the risks of investing and understand that the value of a client's account changes daily and can be effected by a number of factors including, but not limited to general market conditions, other political, social, or economic developments, specific matters relating to the companies held in client accounts, credit risk, and changing interest rates and credit ratings. KRIM cannot guarantee the future performance of a client's account, or the profitability of any individual investment decisions.

Clients that have selected the Small- to Mid-Cap Strategy must understand that historically, smaller capitalization securities have experienced greater volatility and may be less liquid than larger capitalization securities.

Clients that have chosen the Diversified Income Strategy must understand that the asset allocation of their account may vary substantially depending on various factors, including market conditions; the income generated by the securities held in this strategy may decline; this strategy may include investments in lower quality, higher yielding fixed income securities which may be subject to greater price fluctuation than higher quality fixed income securities.

Occasionally clients may request that KRIM utilize the writing of or the purchase of puts and calls as part of the client's investment strategy. Clients are responsible for completing the appropriate paperwork and obtaining account approval for this type of option trading from their broker/custodian.

Clients must keep KRIM apprised of changes to their address. Clients that fail to do so waive any claims resulting from the failure to receive communications from KRIM. Address changes should be made in writing and include signatures for all appropriate parties on the account. KRIM is not able to alter custodial address-of-record data; clients must contact their custodian to instruct such changes.

Clients should note that all or a portion of the securities in their account may be sold during the course of management of the account. The client is responsible for all tax liabilities arising from such transactions and encouraged to seek the advice of a qualified tax professional. New accounts and/or additions to existing accounts may not be immediately fully invested. The level of investment depends on the number of attractive securities that are present at the time the account is funded. Depending on market conditions it may take 3-6 months to fully integrate an account or additional funding. Clients that have sought and obtained approval from their broker/custodian to utilize the writing of or the purchase of puts and calls must understand that there are tax implications and risks associated with option trading strategies; such risks are disclosed in the Options Disclosure booklet provided by their broker/custodian prior to approval of option trading.

To help the government fight the funding of terrorism and money laundering activities, KRIM has adopted Anti-Money Laundering policies and procedures. As part of those procedures KRIM may request clients to provide documentation to verify their identity.

All investing involves a risk of loss.

## **IX. Disciplinary Information**

KRIM and its employees have not been involved in any legal or disciplinary events in the past 10 years that would be material to a client's evaluation of the company or its personnel.

## **X. Other Financial Industry Activities and Affiliations**

KRIM and its employees do not have any relationships or arrangements with other financial services companies that pose material conflicts of interest; however KRIM does have one employee, Bryn D. Harman that is a member of the Board of Directors for Hunt Mining Corporation, a publicly traded company. Although likely inconsistent with the investment style of KRIM, clients should understand that due to Mr. Harman's Board membership, KRIM may be precluded from trading in Hunt Mining Corp. securities for clients (regardless of whether or not investments in Hunt Mining Corp. were part of the opening balance in their account) as there may be times when he has knowledge of insider information. Mr. Harman is restricted from disclosing or using material non-public or other confidential information under KRIM policy and applicable law, and is under no obligation to disclose such information to any client or use it for any client's benefit.

## **XI. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

To avoid potential conflicts of interest involving personal trades, KRIM has adopted certain compliance policies including, a Code of Ethics/Code of Conduct, Personal Securities Transactions, and Insider Trading policies. In summary, these policies require that Employees:

- Act with integrity, competence, dignity, and in an ethical manner when dealing with the public, clients, prospects, financial consultants, and fellow employees;
- Place the interests of clients above one's own personal interests;
- Conduct personal securities transactions in a manner consistent with firm policy (summarized below);
- Avoid taking inappropriate advantage of their position;
- Preserve the confidentiality of certain information (see Privacy Statement);
- Avoid if possible, and/or disclose any actual or potential conflicts of interest;
- Use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, and taking investment actions (applicable to Traders and Portfolio Managers);
- Maintain full compliance with Securities Law and firm compliance policies.

KRIM's Personal Securities Transaction procedures also require employees to:

- Pre-clear certain personal securities transactions;
- Report personal securities transactions on at least a quarterly basis;
- Provide KRIM with a detailed summary of certain holdings over which they have a direct or indirect beneficial interest.

KRIM's Personal Securities Transaction Policy is summarized as follows:



KRIM Portfolio Managers may recommend for client portfolios, securities in which they directly or indirectly have a financial interest. In addition Portfolio Managers may buy or sell securities that are recommended to advisory clients for purchase or sale. They may also give advice and take action in the performance of their duties to clients which differs from advice given, or the timing and nature of action taken, with respect to other clients' accounts.

Employees may not engage in personal trading practices that are harmful to clients or bring unjust enrichment to themselves such as trading or passing on non-public information, moving profitable client trades to personal accounts, engaging in excessive volume of personal trading that detracts from their responsibilities to clients, taking advantage of their position by accepting gifts from individuals seeking to do business with KRIM, or the personal use of company property for personal benefit.

To address the potential conflict of interest inherent with investment advisory employees conducting personal securities transactions, KRIM will maintain a Restricted List of securities that employees are generally prohibited from trading, as the securities on this list are possible investment candidates or existing investments that may be under consideration for removal or trimming from client portfolios. Generally, two exceptions apply to this prohibition: (1) employee trading accounts maintained with an unaffiliated investment adviser in which the employee has certified, in a written format, that he/she does not have any direct or indirect influence or control over the trading of the account and that all trading decisions are made pursuant to the discretion of the independent investment adviser; and (2) employee accounts that KRIM formally manages under an Investment Management Agreement, however such accounts may not receive any part of a trade allocation in the event that the account was part of a client block order and the entire block was not executed on the same day.

The receiving and giving of gifts by KRIM and KRIM employees represents a conflict of interest for KRIM. To address this issue, employees must disclose to the Chief Compliance Officer gifts given or received from clients, financial consultants, or other vendors that are in excess of \$200. Furthermore, employees are prohibited from making contributions to organizations that are current or prospective clients in exchange for new KRIM business.

Clients or prospective clients may request a copy of KRIM's Code of Ethics/Code of Conduct by contacting Leslie Yates, Chief Compliance Officer at the address listed on Page 1 of this Form ADV Part 2.

## **XII. Brokerage Practices**

### **Non-directed Brokerage/Research and Other Soft Dollar Benefits**

Clients may grant KRIM discretion as to which broker to use in effecting transactions. In making any such selection, KRIM will take into consideration a number of factors including, without limitation: the overall net economic benefit to the portfolio, transaction costs (which may not be the lowest available), the efficiency of the execution of the transaction, and the ability of the broker to execute trades in a difficult market. In addition, KRIM may receive research from the broker selected that may be used for the benefit of all clients, not just the client for whose benefit the trade was executed. The broker-dealer compensation paid may exceed fees and charges that could be obtained from another broker or dealer, in recognition of the value of the research provided by that broker. In this case KRIM determines in good faith that the commission is reasonable in relation to the value of such research services received. The research received is generally in the form of a periodical report, access to analyst conference calls and comments regarding economic, market, company or industry information, and other technical data. Access to such research creates a conflict of interest for KRIM in allocating brokerage business between firms that provide such research and those that do not. This conflict may be influential to the extent that the research services received could be viewed as benefiting KRIM by relieving the firm of the expense involved in purchasing the services itself. During KRIM's last fiscal year, KRIM did not direct any client transactions to any particular broker/dealer in return for any research and/or other soft dollar benefits.

### **Brokerage for Client Referrals**

KRIM provides investment advisory services to individuals (or related individuals) that are providing necessary business services to KRIM. Additionally, KRIM receives clients referred by various financial consultants. These relationships create a potential conflict of interest between a client's interest in obtaining best price and execution and KRIM's interest in receiving future referrals or business services. Additionally, clients may have been able to negotiate a lower brokerage compensation or commission rate if they had not directed their brokerage to the

referring financial consultant's firm. Clients have various brokerage options, including utilizing the services of the referring financial consultant, any other financial consultant that the client desires, or any firm suggested by KRIM to provide custody and execution services for clients.

In the event that a potential client does not have an existing brokerage/custodial relationship, KRIM takes into consideration the client's needs for expertise and service when offering the client brokerage options. The potential for a financial consultant to provide ongoing client referrals back to KRIM is not taken into consideration, although KRIM will generally refer clients to financial consultants with whom it already has clients. This often occurs as a result of KRIM's interaction with these financial consultants for existing clients and therefore KRIM's understanding of the level of service and expertise offered by the financial consultant.

### **Directed Brokerage**

Clients designate the brokers to be used for effecting transactions in their account since, in most cases clients are participants in fee-in-lieu-of-commission brokerage fee programs or Wrap Programs; as a result, KRIM views and terms these arrangements as directed brokerage. Transactions for these clients are effected through the client's broker-dealer/custodian, with no commissions being charged on these transactions, since the broker-dealer/custodian is compensated according to the terms of the client's fee agreement with their broker-dealer/custodian. In these situations KRIM is not free to seek the best price and execution for clients; therefore no assurance can be given that KRIM will be able to obtain the best price or execution for client whose assets are subject to these fees. Not all advisers and/or broker-dealers require their clients to direct brokerage; some clients participate in managed account programs and choose to pay brokerage commissions instead of an asset-based fee.

In these directed brokerage relationships the client is responsible for negotiating brokerage compensation and other transaction costs with the financial consultant. A client may negotiate a brokerage compensation rate that exceeds the rate that could be obtained from another brokerage firm, or that KRIM's other clients may pay. Furthermore, KRIM may not be able to aggregate trades for the clients' account with those of other KRIM clients obtaining volume discounts and the price a client pays or receives for a security may be different from the price paid or received by KRIM's other clients who utilize different brokers/custodians. The directed broker and the broker-dealer stand to benefit from providing custody and execution services.

KRIM's ability to trade fixed income securities for directed accounts may be limited by the inventory of that broker-dealer. Clients must satisfy themselves that the directed broker can provide adequate price and execution for most or all transactions and that the brokerage compensation negotiated by the client is appropriate given the services that may be provided by the financial consultant, potentially including but not limited to, personal advice, retirement, estate, and education planning, manager selection, performance measurement, account and tax reporting, custodial and trade execution capabilities.

With respect to ERISA clients any direction by the plan sponsor must be in the best interests and for the exclusive benefit of the plan participants.

The limitations inherent in the directed brokerage arrangement may limit KRIM's ability to achieve best execution; to utilize alternative trading platforms (electronic trading networks and other trading firms compensated by charging commissions) and take away KRIM's ability to negotiate commission discounts. It is the client's responsibility to determine the suitability of their directed brokerage arrangement.

### **Allocation of Trades**

Given that KRIM is in the business of providing investment advisory services there is an inherent conflict of interest regarding KRIM's time devoted to managing more than one account. To address this issue KRIM is first required to disclose this conflict and secondly develop procedures that accommodate KRIM's ultimate goal of offering the most favorable execution as well as allocation of opportunities in what it believes is a fair and equitable process.

KRIM utilizes a portfolio weightings basis (based on market value, rounded to appropriate lot sizes) when purchasing or selling securities to assure the fairest and most equitable allocation. An allocation may be further

adjusted for restrictions, general market exposure for clients, cash levels, minimum ticket brokerage commission charges, concentration risk, tax strategy, etc.

When possible and deemed appropriate, KRIM will aggregate the same transactions in the same securities for those accounts held at the same brokerage firm/custodian (block trading) or utilize the step-out trading strategy (described below). The aggregation allows KRIM to execute trades in a more timely, equitable, and efficient manner. Accounts traded in a block transaction will receive the same (an average) price per share; this average price may be better than, equal to, or worse than the price received had the transaction not been aggregated. In some circumstances limitations of the broker's trading platform do not accommodate trading in blocks, and orders must be entered on an individual client basis.

Orders are entered on a random basis among the various firms that accommodate block trading and step-outs, and those that require the accounts to be traded individually. Occasionally, however there may be certain conditions that influence the order in which firms are given instructions (size of trade vs. volume, etc.); KRIM will seek to place trades in a sequence that is most advantageous to all accounts involved. In an effort to distribute investment opportunities fairly KRIM generally does not wait for a completed execution at any particular broker prior to entering trade instructions with the next consecutive custodians/brokers.

Model portfolios are included in the rotation process described above. KRIM informs the Model Program Sponsor of changes to the model, but does not execute trades on behalf of the Model Program Sponsor. The Model Program Sponsor has discretion to execute the submitted model changes and may receive an execution that varies from KRIM's discretionary clients.

If the client has not designated a broker for transactions, selection of the broker is random among those willing to complete such transactions. Issues influencing brokerage selection include, but are not limited to: past experience with the broker, the efficiency of the execution, the price of the security bought or sold, the financial stability of the brokerage firm, reliability, and record-keeping. Error-free execution and settlement may be a better value than the cheapest execution.

#### *Step-Outs*

If permitted by the client's brokerage firm/custodian, KRIM may utilize a step-out trading strategy. Step-out trades are executed by one broker-dealer and then "stepped-out" to another broker-dealer to perform settlement and other administrative functions; the executing firm may not be the same as the client's custodian. This trading strategy generates an average price for all of the clients in the trading group, minimizes issues of random group rotation, and provides execution consistency among numerous portfolios; although there can be no assurance on a trade-by-trade basis that step-out transactions will result in better price execution versus other KRIM clients not participating in the step-out. Additionally, the long-term performance of accounts participating in this step-out strategy may differ from those clients whose accounts are managed with the same investment strategy but not able to participate in the step-out trades. Given KRIM's significant number of accounts that are participating in a directed brokerage arrangement, KRIM will only utilize executing brokers that have the capabilities to effectively and efficiently execute the trades and are willing to process the trade without any additional commission charge to such clients. Selection and review of appropriate brokers and alternative trading platforms is on-going by KRIM traders and reviewed formally in periodic execution meetings.

#### *Partial Fills*

In the event that KRIM is not able to fill a block order in its entirety, KRIM will allocate those shares that were executed on a pro-rata basis among those in the original allocation. For example if only half of the order was filled, then generally all clients would be allocated 1/2 of their original allocation.

#### *Trading for an individual account*

When a trade is to be executed for an individual account and the trade is not in the best interests of other accounts, then the trade will be entered for that individual account. This is true even if the portfolio manager believes that a larger size block trade would lead to better overall price for the security.

On occasion KRIM may deem it appropriate for one client to purchase a particular security and yet the same day, appropriate for another client to sell that same security. Clients should understand that KRIM's interest lies in

obtaining best execution for both clients. KRIM will not instruct the trader to execute a cross-trade; rather KRIM will enter the trades separately for execution on the open market at market prices, seeking the most favorable execution for all accounts involved.

#### *Fixed Income Securities*

KRIM's fixed income allocation process involves taking into consideration, among other things, the existing fixed income securities in client accounts, the available inventory of a particular security, the amount in which accounts deviate from their targeted allocation, appropriate position sizes, and cash levels, ultimately seeking fair and equitable treatment over time.

#### *Participation in IPOs/Hot-issue securities*

KRIM does not participate in IPOs or hot issue securities for clients.

#### *Non-discretionary Trading (i.e. client directed purchases or sales)*

Upon notification and confirmation that all necessary information has been received, all requests are completed on a first-in first-out basis. However, KRIM prefers that the client complete such transactions directly with their financial consultant and the securities are moved out of the KRIM managed account or specifically designated as unsupervised.

#### *KRIM managed employee related accounts*

Employee accounts that are managed under contract by KRIM (including accounts of KRIM) are traded after the recommended action has been taken for all appropriate non-employee managed accounts.

#### *Non-managed employee related accounts*

All employees are required to follow the personal securities policy and procedures of KRIM. See section “**Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**” for additional detail.

Exceptions to the policies described above may be made if KRIM believes it will be fair to its clients on an aggregate basis.

Clients that have intentions of transferring their account from their existing custodian or broker-dealer to another should notify KRIM in writing as soon as possible. KRIM will suspend the account during the transfer process and unsuspend the account upon notification by the receiving firm that the account is approved for management. Clients that are involved in a fee-in-lieu-of-commission or wrap fee program should understand that if KRIM is not appropriately notified of the transfer and enters a trade while the transfer is in process, the originating or receiving custodian or broker-dealer may charge a commission on the trade(s) or may require KRIM to cancel the trade(s). KRIM may choose to terminate management services if it is determined that the receiving firm is not able to offer adequate services and functionality required for KRIM to carry out its management responsibilities.

#### **Trade Errors**

From time to time, errors may occur in the trading or investment process. It is KRIM's policy that when an error is detected immediate action is taken to correct the error and ensure the client account is restored by the appropriate party.

### **XIII. Review of Accounts**

Account reviews are made on an ongoing basis by the Chief Investment Officer and Portfolio Managers. In addition to monitoring market conditions, events affecting a particular security, individual client circumstances and other changes in the political or economic environment may trigger additional reviews of client accounts. In addition, security and cash balances are reconciled monthly with statements furnished by the custodian of client assets.

Background information regarding the Chief Investment Officer and Portfolio Managers can be found in Part 2B of the Form ADV (the “Brochure Supplement”).

Clients receive confirmations from their broker/custodian of all securities transactions in their account. However, some brokerage firms are offering clients the ability to waive their right to receive confirmations. In either instance clients will receive from their broker/custodian an account statement that lists all transactions in their account; provided in any month in which there is activity, or at least quarterly. Some custodians are providing clients with the ability to obtain their confirmations and/or statements electronically. Clients are responsible for ensuring consistent retrieval of these records and for providing a secure location (host) for such retrieval.

In some cases the client's brokerage program includes quarterly reporting, in addition to the standard monthly account statement. Morgan Stanley Smith Barney and Wells Fargo Advisors provide quarterly reporting to clients (some individual financial consultants at these firms may request that KRIM provide statements to their clients).

In situations where the client's brokerage program does not provide quarterly reporting (in addition to their standard monthly or quarterly account statement), KRIM will provide a quarterly portfolio appraisal (lists individual security positions, amounts, cost basis as provided by client, market value, and current income) and portfolio performance. Other reports regarding the portfolio including transaction summaries are available upon client request or may be provided to the client at the discretion of KRIM. Clients should compare KRIM records to those of their custodian. Copies of the quarterly reports are provided to the client's financial consultant as well.

In both cases, clients receive an investment strategy commentary, which summarizes economic trends, and other factors that may influence KRIM's management of portfolios. Consultations may be held on whatever schedule the client, the portfolio manager and/or the client's financial consultant may consider desirable. KRIM is willing to provide reports and other communications as requested by the client and/or financial consultant.

## **XIV. Client Referrals and Other Compensation**

A portion of the compensation paid to certain employees is based on the generation of additional assets under management for KRIM through new accounts and/or significant deposits to existing accounts.

### **Other Compensation**

Some brokerage firms/custodians have provided KRIM with access to websites or other software which facilitates the trading and/or reconciliation process; specifically, a location to upload invoices for management fees, enter trade orders or allocations, and in some cases, the ability to download brokerage statements and/or account transaction detail. Some websites provide access to compliance material, pricing, research, and other market data. Other services commonly provided by brokerage firms/custodians include receipt of duplicate confirms and statements and the ability to have management fees deducted directly from client accounts (with written approval). The services are provided by the brokerage/custodial firms as a means of supporting investment advisers in general, and are not driven by a level of commissions directed to any specific firm; however such services do provide KRIM with increased operational accuracy and efficiencies. These services may be used to support one or a substantial number of accounts and could represent a conflict of interest for KRIM when evaluating firms that are not providing these services. Access to these same trading and operational services may or may not be available to individual investors.

As noted in Item 4, KRIM has been engaged by a third party financial services firm to provide general broad market commentary on a limited basis. The compensation received under this agreement is not considered a material source of income for KRIM and the amount of time devoted to this activity is limited as well. This firm may refer clients to KRIM for investment advisory services, however to address the potential for conflicts of interest as well as in consideration of KRIM's compliance policies, under the terms of KRIM's agreement with this firm neither KRIM nor any KRIM employee provides information or advice regarding individual securities, generates research reports, or acts as a research analyst on behalf of this third party.

## **XV. Custody**

All clients' accounts are held in custody by unaffiliated broker/dealers or banks, but KRIM can access many clients' accounts through its ability to debit advisory fees. For this reason KRIM is considered to have custody of client assets. Account custodians send statements directly to the account owners on at least a quarterly basis. Clients should carefully review these statements, and should compare these statements to any account information provided by KRIM.

## **XVI. Investment Discretion**

When KRIM has discretionary authorization to effect investment or brokerage transactions in a client's account, the extent of and limitations on that authority are determined by agreement with the client. Such agreement grants KRIM authority to effect securities transactions in clients' accounts by way of a limited power of attorney.

In addition, conditions could be imposed in writing, which prohibit or limit the purchase of specific industry groups or stocks for personal reasons or because such transactions would increase individual security or industry/economic sector holdings above a certain percentage, whether absolutely or in relation to the total portfolio. It should be noted that investment restrictions could adversely affect the performance of the client's account. Furthermore, industry restrictions may be subject to interpretation based on an individual client's value system or whether the restricted industry is considered a primary or secondary business of an underlying security. KRIM will make best efforts to accommodate adherence to such restrictions, however the client must notify KRIM if they wish to modify their restriction instructions to include restricting investment in a specific security. KRIM may choose to not accept or terminate an account if clients have imposed overly restrictive limitations on their account and it is determined that such instructions would significantly hinder KRIM's ability to manage the account consistent with the stated investment objectives.

In the event that a client utilized the services of another investment adviser prior to engaging the services of KRIM, KRIM will not be responsible for the actions of the previous advisor, regardless of whether or not the client transfers in securities to their KRIM managed account that were purchased by the previous advisor. Furthermore, in the event that a client transfers securities into their managed account (either at inception or thereafter), KRIM will not be responsible for the actions relating to the original acquisition of the security or securities.

Mr. Kenneth Roberts served on the Board of Flow International Corp. ("FLOW"), a publicly traded company, until September 2006. Although no longer a Board Member, Mr. Roberts may, from time to time, be asked by FLOW to serve as a consultant to the Company on various matters that may include, among other things, strategy reviews, customer visits, acquisition/disposition or significant investment analysis, lobbying support, and personnel and organizational assessments. Mr. Roberts has received compensation to provide these consulting services. Although likely inconsistent with the investment style of KRIM, clients should understand that due to Mr. Roberts' consulting services, KRIM may be precluded from trading in FLOW securities for clients (regardless of whether or not investments in FLOW were part of the opening balance in their account) as there may be times when he has knowledge of material, non-public information. Mr. Roberts is restricted from disclosing or using material non-public or other confidential information under KRIM policy and applicable law, and is under no obligation to disclose such information to any client or use it for any client's benefit.

## **XVII. Voting Client Securities**

KRIM has developed Proxy Voting Policies to ensure that proxies for which KRIM has been delegated voting authority are voted consistently and in the best interest of KRIM clients. Delegation of proxy voting to KRIM is at the sole discretion of the client and is applicable to all securities held in the account (supervised and unsupervised).

The client must contact their broker-dealer/custodian to instruct appropriate coding of proxy instructions consistent with their wishes for voting authority. KRIM requests documentation of proxy voting authority from the broker-dealers/custodians at inception of new accounts. KRIM considers receipt of proxy materials as authorization, by the client to vote proxies on their behalf. If clients wish to rescind this delegation of voting authority they must

contact their broker/custodian as well as notify KRIM of this change; at this point proxy materials would be delivered to clients from the broker-dealer/custodian, transfer agent, or other party. Clients should note that events causing the broker-dealer/custodian to require new paperwork for an existing account may cause the coding for the proxy voting materials to default back to the client.

KRIM will not be responsible or liable for failing to vote any proxies where KRIM did not receive the proxies or related shareholder communications in a timely manner.

KRIM has retained Institutional Shareholder Services (ISS) as an expert in the proxy voting and corporate governance areas to assist in the due diligence process related to making appropriate proxy voting decisions as well as vote processing and recordkeeping. KRIM utilizes the proxy voting guidelines established by ISS as these guidelines are consistent with KRIM's policies. KRIM's guidelines are not rigid policy positions nor are they intended to address all potential voting issues. KRIM may elect to abstain from voting if it is determined that such action is in clients' best interests. The ISS and KRIM guidelines will be reviewed at least annually. KRIM may change these guidelines in response to general corporate governance practices without providing prior notice of the changes to clients.

Given the size and nature of KRIM's business it is rare when a conflict of interest arises. Furthermore, by engaging the services of ISS to provide guidance on proxy voting matters and consistently applying the guidelines across proxy proposals potential conflicts of interest are minimized. However, in the event that a material conflict of interest is identified (a KRIM employee may personally benefit if the proxy is voted in a certain direction) that employee is removed from the proxy voting process as applicable and KRIM will process the vote as recommended by ISS (being an independent third party). KRIM employees may own positions in the companies for which ballots are to be cast. Generally, such ownership is immaterial versus the total shares outstanding for the company. However, in the event of significant ownership, the Board will vote the ballots as stated above when a conflict of interest is identified.

A copy of KRIM's Proxy Voting Policies may be obtained upon request by contacting KRIM. In addition clients may obtain a record of how proxies were voted on an aggregate basis, direct the vote on a particular account for a specific security (assuming timely notice is provided and KRIM's vote has not already been cast), or request information regarding a particular ballot by contacting Leslie Yates, Chief Compliance Officer at the address listed on Page 1 of this Form ADV Part 2.

## **XVIII. Financial Information**

KRIM has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to manage client accounts.

## **XIX. Other Information**

### **Submission of Paperwork and/or Approval of Class Action Litigation**

KRIM does not accept responsibility in matters relating to class actions, including without limitation, approval of class settlements, bankruptcies or otherwise and will not complete or submit any paperwork on behalf of clients with regard to such matters.

### **Unsupervised Securities**

Assets designated as "unsupervised" are neither managed nor charged a management fee by KRIM (fees for those in a wrap program may differ). KRIM assumes no responsibility for these assets.

**KRIM should be notified in writing if there are changes in a client's financial situation, if their investment objectives should be modified, if they have intentions of changing custodian or broker-dealer, or if they have a change of address.**