

**KMS Financial Services, Inc.**  
**Form ADV Part 2A Firm Brochure**

2001 Sixth Avenue, Suite 2801

Seattle Washington 98121

(206) 441-2885

[www.kms.com](http://www.kms.com)

March 2012

This brochure provides information about the qualifications and business practices of KMS Financial Services, Inc. ("KMS"). If you have questions about the contents of this brochure, please contact us at (206) 441-2885. This information has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority.

KMS is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training. Additional information about KMS is available at [www.kms.com](http://www.kms.com) and the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2 – Material Changes**

There are no material changes to report since the last annual update to this document in March 2011.

### Item 3 – Table of Contents

Item 1 –	Cover Page .....	i
Item 2 –	Material Changes .....	i
Item 3 –	Table of Contents .....	ii
Item 4 –	Advisory Business .....	1
	Financial Planning Services and Consulting .....	1
	Advisor Asset Management Services .....	2
	SubAdvisors .....	2
	Third Party Advisors .....	3
Item 5 –	Fees and Compensation .....	3
	Financial Planning Services and Consulting Fees .....	3
	Retirement Plan Consulting Fees .....	3
	Advisor Asset Management Services Fees .....	3
	SubAdvisor Fees .....	4
	Third Party Advisor Fees .....	5
Item 6 –	Performance-Based Fees and Side-By-Side Management .....	5
Item 7 –	Types of Clients .....	5
Item 8 –	Methods of Analysis, Investment Strategies and Risk of Loss .....	6
Item 9 –	Disciplinary Information .....	6
Item 10 –	Other Financial Industry Activities and Affiliations .....	6
Item 11 –	Code of Ethics and Personal Trading .....	6
Item 12 –	Brokerage Practices .....	6
	Best Execution .....	6
	Trade Aggregation .....	7
	Trade Allocation .....	7
	Trade Errors .....	7
Item 13 –	Review of Accounts .....	7
Item 14 –	Client Referrals and Other Compensation .....	7
	Client Referrals .....	7
	Other Compensation .....	7
Item 15 –	Custody .....	8
Item 16 –	Investment Discretion .....	8
Item 17 –	Voting Client Securities .....	8
Item 18 –	Financial Information .....	8

## Item 4 – Advisory Business

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

KMS operates through independent financial professionals, individuals who are investment advisory representatives and/or securities registered representatives. Registration does not imply any particular level of skill or training, although many KMS Representatives maintain related certifications and designations. KMS is owned by approximately a dozen officers and directors of the firm, with Mark Hamby, KMS’ Chairman & CEO, and Eric Westberg, President & COO, currently owning together more than 70% of KMS shares outstanding.

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

Each KMS Advisor should provide his or her advisory Clients with details of their background in a 2B Brochure Supplement, which should be included herein as pages 11 and 12. **If you have not received such 2B Brochure Supplement, please contact your Advisor or KMS.**

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

KMS does *not* perform portfolio management services as part of *other* sponsors’ wrap-fee programs. Through its Advisors, KMS *does* provide portfolio management services under a “wrap fee” structure, *i.e.*, a single fee which covers certain transaction costs as well as portfolio management services and advice. KMS’ wrap-fee program brochure is available through KMS or your KMS Advisor.

As of December 31, 2011, KMS had approximately \$1.333 billion of discretionary assets under management and approximately \$1.022 billion of non-discretionary assets under management for a total of approximately \$2.355 billion assets under management.

**Financial Planning and Consulting Services:** KMS Advisors may provide **Financial Planning Services**, which may include collection of financial data, development of income and net worth statements, estate analysis, estate tax calculations, income tax analysis, investment analysis, and preparation of a formal financial plan. KMS Advisors may provide occasional estate and personal income tax ideas to be reviewed and implemented by independent tax practitioners. Services are offered under an Advisory Agreement – Financial Consulting.

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

**Advisor Asset Management Services:** KMS Advisors may offer **Portfolio Monitoring and Consulting Services** by monitoring a Client's account and making recommendations for (or executing trades in) investments consistent with the Client's investment objective, as declared in the advisory agreement. **There is no guarantee that the recommendations or trades will meet a Client's investment objective over any given timeframe.** Advisor will deliver to the Client performance report(s) on the schedule specified in the advisory agreement. Accounts may be held at the following custodians: Pershing LLC, Charles Schwab & Co., Inc., or TD Ameritrade. The custodian provides account statements directly to the Client. KMS encourages Clients to promptly review all such account information.

Accounts may be traded on a discretionary or nondiscretionary basis, as specified in the advisory contract. Accounts may incur transaction fees which will vary depending upon the type of investment and the custodian. Also, a KMS Advisor may negotiate with Schwab Institutional a transaction fee schedule unique to the Advisor's respective Client accounts that is different from the KMS standard transaction fee schedule available to other KMS Advisors.

**Tactical Monitoring** is a service offered by a few KMS Advisors that sets objectives-driven asset allocation models in specified variable annuity sub-accounts, variable life sub-accounts, or mutual funds. Percentage allocations in the models may change due to intervening market movements and/or authorized exchanges, but consistent with the guideline investment objective. Tactical Monitoring combines Advisor's subjective review, control, and implementation of a trend-following analysis provided by AdvisorGuide, an independent and unaffiliated entity that measures daily price movements of portfolio securities. Advisor will deliver to the Client performance report(s) on the schedule specified by the Client in the advisory agreement. The custodian of accounts under Tactical Monitoring will provide account statements directly to the Client.

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

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

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

KMS offers SubAdvisor services through Sound Investment Strategies, Inc., Raymond James & Associates, Inc., SEI Trust Co., SNW Asset Management, LLC, Lisa Sroufe & Co., Inc., and Runde & Co.

Clients entering into a SubAdvisor relationship through KMS should receive and review the SubAdvisor's Brochure. KMS encourages Clients to promptly review these documents. Clients may also review information on the SubAdvisors on the SEC's web site, [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

**Third Party Advisors:** Third Party Advisors provide various services described in their marketing materials and contracts. A KMS Advisor may recommend a Third Party Advisor and/or may recommend a particular investment objective or category offered by that Third Party. In most Third Party Advisor programs the KMS Advisor acts as a solicitor for the program and works directly with the Client to select and monitor the desired services. The Third Party Advisor will provide money management services and reporting. Clients under Third Party Advisor relationships receive statements from the various custodians who hold their account.

Clients entering into a Third Party Advisor relationship through KMS should receive and review the Third Party Advisor's Brochure. KMS encourages Clients to review these documents. Clients may also learn more about the Third Party Advisor via the SEC's web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Item 5 – Fees and Compensation

In the course of providing advisory services to Clients, KMS and Advisor receive advisory fees as described in the relevant advisory contract. For some advisory accounts, KMS Advisor may recommend the purchase of securities that pay a 12b-1 fee or service fee ("trails"), generally at the rate of 0.25% of asset value per year, paid quarterly. (That equates to \$6.25 of gross trail revenue per quarter per \$10,000 of assets.) In these circumstances, KMS and Advisor would have a financial interest in the recommendation which may constitute a conflict of interest. KMS monitors and addresses this potential conflict of interest through advisory fee discounts, offsetting trails against advisory fees, or disclosure.

In addition, Advisor may also recommend that a Client buy (or sell) a security or insurance product. If a Client decides to do so, KMS and Advisor may be paid a commission (including mark up or mark down) on the purchase or sale of such products. In these circumstances KMS and Advisor would have a financial interest in the transaction which may constitute a conflict of interest. Generally the Advisor will disclose the amount of compensation at the time a recommendation is made by delivering the relevant prospectus or the equivalent. Clients are under no obligation to purchase securities or insurance products through KMS or the Advisor.

**Financial Planning and Consulting Services Fees** are charged an hourly or project fee depending upon the complexity of the Client's financial situation. Fees may be partially or fully payable in advance, with the balance payable upon delivery of the plan. Fees are negotiable depending upon services offered by Advisor.

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

### Advisor Asset Management Services Fees

#### Portfolio Monitoring and Consulting Services – Standard Fee Schedule:

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

On the next \$3,000,000	0.75%
On the next \$5,000,000	0.75%
On amounts over \$10,000,000	0.75%

Portfolio Monitoring and Consulting fees are calculated and payable monthly, quarterly, semi-annually, or annually in advance, based on the portfolio value as of the last business day of the prior time period. With written notice Clients may terminate these contracts at any time and receive a full pro-rata refund of unearned fees. Fees are negotiable and may be higher or lower than the standard schedule depending upon services provided by Advisor. Individual Advisors may impose a minimum account size and/or minimum fee. Services are offered under an Asset Management Advisory Agreement.

**Tactical Monitoring Services Fee Schedule:**

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

Tactical Monitoring Service Fees are calculated and payable quarterly, semi-annually, or annually in advance, based on portfolio value as of the last business day of the prior time period. With written notice Clients may terminate these contracts at any time and receive a pro-rata refund of any unearned portion of fees paid. Client and Advisor may agree to an adjustment in the fee schedule detailed above. Services are offered under a Tactical Monitoring Advisory Services Agreement or Asset Management Advisory Agreement.

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

**Sound Investment Strategies, Inc.** (Asset Management Advisory Agreement)\*

<u>Portfolio Assets Valued At:</u>	<u>Annualized Fee</u>	
\$0 to \$999,999	1.25%	* Accounts are held at Pershing LLC, KMS Branch 4LJ
\$1 million and above	Negotiable	

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

<u>Portfolio Assets Valued At:</u>	<u>Annualized Fee</u>	
On the first \$1,000,000	1.60%	* Accounts are held at Pershing LLC, KMS Branch 4LJ
On the next \$1,500,000	1.20%	
On amounts over \$2,500,000	0.80%	

**SEI Investments Asset Allocation Portfolios** (Asset Management Advisory Agreement – SEI Asset Allocation Programs) \*

*Standard Fee Schedule*

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

### *Special Fee Schedule*

<u>Portfolio Assets Valued At:</u>	<u>Annualized Fee</u>	
On the first \$500,000	1.25%	* Accounts are held at SEI Trust Company
On the next \$1 million	1.15%	
On the next \$2 million	1.00%	
On the next \$3 million	0.75%	
On amounts over \$30 million	0.50%	

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

.30% if the account has less than \$2,500,000 assets under management,

.25% if the account has more than \$2,500,000 assets under management.

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

Accounts are held at Pershing LLC, KMS Branch 4LJ, or at Charles Schwab & Co., Inc.

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

<u>Portfolio Assets Valued At:</u>	<u>Annualized Fee</u>	
On the first \$100,000	1.75%	* Accounts may be held at Pershing LLC, KMS Branch 4LJ, or Charles Schwab & Co., Inc.
On the next \$150,000	1.50%	
On the next \$250,000	1.25%	
On the next \$500,000	1.00%	
On amounts over \$1 million	0.75%	

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

.50% on the portfolio assets valued on the last business day of the prior quarter. This rate may be subject to a minimum annual fee of \$2,500.

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

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

KMS' direct advisory services are not offered under performance-based fee arrangements. However, some Third Party Advisors available through KMS do offer performance-based fee structures. Information regarding any potential conflict of interest by offering performance-based fees is available in the Third Party Advisor's Brochure.

## **Item 7 – Types of Clients**

KMS Advisors provide advisory services and investment advice to individuals, pension and profit sharing plans, trusts, estates, charitable organizations, corporations and other business entities, and government entities.

ERISA Plan clients are provided with an ERISA Plan Disclosure Brochure, which provides information about KMS' qualifications, business practices and potential conflicts of interest that may be important for any ERISA Plan to consider. If you are a named fiduciary for an ERISA Plan and you have not received such Disclosure Brochure, please contact your Advisor or KMS.

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

KMS Advisors manage Client assets through investments in securities that reflect the objective and risk tolerance of each individual Client. KMS Advisors offer and provide investment strategies designed to align with the individual Client's disclosed objective and risk tolerance.

Generally, Advisors conduct research and analysis through the use of third-party providers such as Morningstar, Inc., Standard & Poor's, Thomson Reuters, and various other reporting and research organizations. KMS Advisors may also use financial newspapers, magazines, journals, company press releases, timing services, annual reports, prospectuses, and filings with the SEC.

**Investing in securities involves risk of loss that Clients should be prepared to bear.**

## **Item 9 – Disciplinary Information**

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

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

KMS is a securities broker/dealer and as such sells securities products and services. Neither KMS nor any of its management personnel is registered as a futures commission merchant, commodity pool operator, commodity trading advisor, or associated person of such entities.

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

Like any SEC-registered investment adviser, KMS maintains an Investment Advisory Code of Ethics based on ethical conduct and premised on fundamental principles of good faith, fair dealing, integrity, honesty, and full and fair disclosure. KMS Advisors acknowledge in writing that they will follow KMS' Code of Ethics. For a copy of the Code of Ethics please contact KMS or your Advisor.

### **In summary, KMS' Code of Ethics:**

- (1) requires full and fair disclosure of all material elements of the investment advisory relationship with the Client;
- (2) requires compliance with certain Policies on Personal Securities Trading, which, in general: (a) prohibit an Advisor from trading a security before a Client; and (b) prohibit an Advisor from opening or having a personal securities trading account without prior KMS approval;
- (3) prohibits an Advisor from acting on or distributing material, nonpublic information;
- (4) prohibits an Advisor from participating in an initial public offering without prior written approval from KMS' President.

## **Item 12 – Brokerage Practices**

Through the applicable advisory contract some Clients grant discretionary trading authority to their KMS Advisor. Such transactions incur limited transaction charges (commissions) that do not accrue to the benefit of the Advisor. The custodian typically has additional trade-related charges for various services such as confirmation delivery, exchange within a fund family, and early redemption fees. A listing of trading costs is available to Clients at any time. Clients can obtain a copy of the current trade and account fee schedules by contacting the KMS Advisor.

**Best Execution:** As an investment advisory firm, KMS has a duty to seek best execution for Client transactions. Best execution can be difficult to define and measure, and it does not solely mean the achievement of the best price on a given transaction. Rather, it involves consideration of multiple factors bearing on the transaction. Such factors include the nature of the security, the price of the



trade, speed of execution, apparent market conditions when the trade is placed, the float and efficiency of the market, and specific Client needs and parameters. KMS seeks to obtain best execution for its Clients' transactions, which may not necessarily mean the best price or lowest commission available but the best overall quality of execution given the relevant circumstances.

**Trade Aggregation:** On some occasions a KMS Advisor will execute Client transactions on a block or aggregate basis. This involves entering one large trade and allocating shares among multiple Client accounts. This may facilitate more timely execution as well as a more equitable and efficient approach to achieving favorable price execution for a group of Clients. KMS' policy is to allow Advisors to engage in this technique consistent with the manner in which that particular Advisor conducts his or her investment advisory activities. Clients participating in any such block or aggregated transactions will receive an average share price on a pro-rata basis.

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

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

## **Item 13 – Review of Accounts**

Depending on the nature of the advisory relationship, Advisors review accounts quarterly, semi-annually, or annually to determine whether the positions, transactions, and strategies are consistent with the Client's stated investment objective(s). Advisors review accounts with each Client in-person or by phone on an ongoing basis on either a predetermined schedule based on each Client's preferences or some cycle. Clients may request a review of accounts with the Advisor at any time. Additionally, certain events such market downturns may trigger an Advisor to have more frequent account reviews and/or more frequent Client communication. Periodically KMS employees and officers also review accounts for consistency with stated Client objectives, etc.

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

**Client Referrals:** KMS has a relationship with Hanson McClain Retirement Network, LLC ("HMRN") a registered broker-dealer and investment advisor. Through the Hanson McClain Partner Program, HMRN provides certain KMS Advisors marketing support, training, and Client introductions in exchange for a portion of the commission or investment advisory fees earned by KMS. All Client investment recommendations and specific advice are provided by the KMS Advisors and/or RRs. KMS Advisors will provide a separate Solicitor Disclosure Statement regarding the HMRN arrangement, a copy of KMS' Brochure, and any relevant Investment Advisory Agreement.

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

**Other Compensation:** Neither KMS or its Advisors receive other compensation related to any advisory accounts *other than* the compensation described in the relevant investment advisory contract. However, out of an abundance of caution to provide disclosure, below are descriptions of several situations through which either KMS or a KMS Advisor may receive expense reimbursements or other forms of financial support.

KMS hosts an **annual conference** for its registered representatives and Advisors, discussing timely topics about products, services, investment strategies, KMS procedures, and practice management. Various sponsors attending the conference pay KMS a fee, which helps defray a portion of KMS' cost of hosting the conference. This type of cost sharing is a typical practice in the industry and the conference is a net expense to KMS even after the sponsor support.

Third party advisory firms, sponsors and custodians may offer KMS or KMS Advisors **financial assistance** in the form of marketing reimbursements, free or discounted technology platforms and/or free or discounted due diligence trips. Marketing reimbursement allows a third party advisor to help a KMS Advisor grow their asset base. Marketing support reimbursements are for documentable expense and do not exceed the cost of the item. Third party advisors provide support for due diligence and educational trips to educate and train KMS Advisors (and KMS home office staff) about that firm's services and tools. These reimbursements do not exceed the cost of attending the trip or meeting. Further, any technology (or technology support) provided is either a tool required for the Advisor to (efficiently) deliver the service under the advisory contract or it is merely a discount to the "retail" price of the particular technology which assists the Advisor in servicing their Clients. The level of these forms of support is both typical in the industry and modest relative to the total value of services rendered.

## **Item 15 – Custody**

KMS does not act as the custodian holding Client accounts. However, under SEC rules KMS is deemed to have temporary custody of Client funds when it acts as a common remitter for Clients. Consequently, KMS is subject to an annual surprise examination conducted by an independent certified public accountant. KMS Policies prohibit an Advisor from taking possession of Client funds or assets. Clients are instructed to make checks payable to "KMS" or "KMS Financial Services" when investing funds or purchasing advisory services through KMS.

## **Item 16 – Investment Discretion**

Depending on the nature of the advisory relationship, a Client may decide to grant investment discretion to his or her KMS Advisor, SubAdvisor, or Third Party Advisor. Investment discretion granted to a KMS Advisor is limited to the selection of the securities to be bought or sold and the amount of the securities to be bought or sold. In situations where a KMS Advisor is granted discretion, no transaction related compensation is paid to such Advisor.

## **Item 17 – Voting Client Securities**

Most KMS Advisors elect to NOT vote proxies on behalf of their Clients. If an Advisor chooses to offer this service to Clients, such Clients must authorize KMS and the Advisor to do so through the applicable contract or agreement. Clients may obtain a copy of the KMS Proxy Voting Policies and also may obtain information as to how proxies were voted on their behalf.

## **Item 18 – Financial Information**

KMS is required to provide you with certain financial information or disclosures about its financial condition. KMS has no financial commitment that impairs our ability to meet our contractual and fiduciary commitments to you, and KMS has not been the subject of a bankruptcy proceeding.