

## **PART II (A) of FORM ADV: FIRM BROCHURE**

### **Item 1: Cover Page**

#### **FIRM BROCHURE**

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Date of Brochure: July 11, 2012

#### **NOTE:**

This brochure provides information about the qualifications and business practices of Discretionary Management Services, LLC ("DMS"). If you have any questions about the content of this Brochure, please contact us at (913) 981-1345 or via email at [astrumpf@demarche.com](mailto:astrumpf@demarche.com).

The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC) or by any state securities authority.

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

DMS is a registered investment adviser; however, that registration does not imply a certain level of skill or training, per SEC rules.

### **Item 2: Material Changes**

Since the last brochure submitted on May 14, 2012, a material change was made to Item 7, page 5. The minimum annual fee for client services was amended.

## **PART II (A) of FORM ADV: FIRM BROCHURE**

### **Item 3: Table of Contents**

#### **TABLE OF CONTENTS**

| <u>Item Number</u> | <u>Item</u>  | <u>Page</u> |
|--------------------|--|-------------|
| Item 1             | Cover Page   | 1           |
| Item 2             | Material Changes                                     | 1           |
| Item 3             | Table of Contents                                    | 2           |
| Item 4             | Advisory Business                                    | 3           |
| Item 5             | Fees & Compensation                                  | 3           |
| Item 6             | Performance-Based Fees                               | 5           |
| Item 7             | Types of Clients                                     | 5           |
| Item 8             | Methods of Analysis, Investment Strategies and Risks | 5           |
| Item 9             | Disciplinary Information                             | 7           |
| Item 10            | Other Financial Industry Activities or Affiliations  | 7           |
| Item 11            | Conflicts of Interest and Code of Ethics             | 8           |
| Item 12            | Brokerage Practices                                  | 8           |
| Item 13            | Review of Accounts                                   | 8           |
| Item 14            | Client Referrals and Other Compensation              | 9           |
| Item 15            | Custody  | 9           |
| Item 16            | Investment Discretion                                | 9           |
| Item 17            | Voting Client Securities                             | 9           |
| Item 18            | Financial Information                                | 9           |

## **PART II (A) of FORM ADV: FIRM BROCHURE**

### **Item 4: Advisory Business**

#### **Advisory Business and Principal Owners**

Discretionary Management Services, LLC (DMS) is a private, employee-owned, investment advisory firm formally established in 2007 to provide discretionary investment management services to institutional investors. It is an affiliated investment management company of the institutional investment consulting firm DeMarche Associates, Inc., (DeMarche).

Principal owners of DMS are Robert F. Marchesi, Thomas C. Woolwine and William Miskell.

#### **Types of Advisory Services**

DMS' principal business is to provide discretionary investment management services to institutional clients. In discretionary arrangements DMS assumes from clients the responsibility for investment manager selection, tactical restructuring and portfolio rebalancing. DMS also provides tactical restructuring advisory services to institutional clients on a non-discretionary basis.

DMS tailors its services to the specific needs of its clients. Clients may impose restrictions on investing in certain securities or types of securities.

DMS does not participate in wrap fee programs.

As of December 31, 2011, DMS provided investment management services to clients representing \$607,658 (in thousands) on a discretionary basis and \$593,619 (in thousands) on a non-discretionary basis.

### **Item 5: Fees and Compensation**

For discretionary investment management DMS offers three fee arrangements. Clients may select the version that best suits their needs.

#### **1) GTAA Fund Fee**

30 basis points

#### **2) Asset Based Fee**

30 basis points on first \$25 million  
20 basis points on next \$25 million  
15 basis points on next \$100 million  
10 basis points on next \$100 million  
5 basis points over \$250 million

## PART II (A) of FORM ADV: FIRM BROCHURE

### 3) Asset Based Fee *plus* Performance-Based Fee

#### Asset Based Fee

20 basis points on first \$25 million  
15 basis points on next \$25 million  
10 basis points on next \$100 million  
8 basis points on next \$100 million  
3 basis points over \$250 million

#### Performance-Based Fee

- 20% of Total Fund Return in excess of Relative Objective

#### Example of a Quarterly Calculation

- Performance-Based Premium = Client Net Total Fund Return – Relative Objective [based on the latest 4 quarters]
- Performance-Based Fee = (Performance-Based Premium \* Average Fund Assets over the last 4 quarters) \* 20% ÷ [4 quarters]
- Performance-Based Premium is capped at 2%

*Please note the following for fee arrangements above:*

- *Minimum Annual Fee is \$50,000.*
- *Fees negotiable for mandates over \$500 million.*
- *DMS may include ongoing Performance Measurement and an Asset Mix Study to develop asset class targets and ranges as approved by the client.*
- *The fees represented above are for Discretionary Management Services, LLC (DMS) only. Underlying investment managers and the custodian will charge additional fees.*

*Relative Objective is a mix of index funds replicating the fund's target asset allocation investment policy.*

For tactical restructuring advisory services DMS offers the following asset-based fee schedule:

|                    | Level 1         | Level 2           |
|--------------------|-----------------|-------------------|
| First \$25 million | 12 basis points | 21 basis points   |
| Next \$25 million  | 8 basis points  | 14 basis points   |
| Next \$100 million | 6 basis points  | 10.5 basis points |
| Next \$100 million | 4 basis points  | 7 basis points    |
| Over \$250 million | 2 basis points  | 3.5 basis points  |

#### • Level 1

- DMS model portfolio with current Tactical calls translated into client investment policy, report provided on a periodic, but at least monthly, basis.
- No implementation services provided – i.e. training on execution, investment vehicles, manager hire/fire.

#### • Level 2

- DMS model portfolio with current Tactical calls translated into client investment policy, report provided on a periodic, but at least monthly, basis.
- Some implementation services provided to include training review of investment vehicles but no manager hire/fire.

## **PART II (A) of FORM ADV: FIRM BROCHURE**

*Minimum Annual Fee for tactical restructuring advisory service is \$50,000.*

Clients may pay other fees such as investment management fees for underlying separate accounts, commingled funds, mutual funds, and ETFs in connection with DMS's advisory services. Clients will also incur brokerage and other transaction costs in connection with DMS's services. Please see Item 12 (Brokerage Practices) of this brochure for more information on brokerage practices.

Clients may elect to deduct fees from assets under management or be billed separately for fees incurred. Fees are not paid in advance for DMS' services. Fee calculation methods are arranged with each client prior to each relationship. Fees are typically based on the average market value of the portfolio of the calendar quarter and payable quarterly in arrears; however, other calculation methods have been arranged such as using beginning or ending market value of the portfolio.

Neither DMS nor any supervised person of DMS accepts compensation for the purchase or sale of securities or other investment products.

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

As noted in Item 5 (Fees and Compensation) above, clients may elect a performance-based fee arrangement for services. A performance fee arrangement may create an incentive for an advisor to make riskier recommendations or investments than would be made under a different arrangement. DMS may receive increased compensation with regard to unrealized as well as realized gains in a client's account. Prior to the inception of the performance-based fee arrangement, DMS must disclose the index used, the period(s) of time, and pricing of securities for performance measurement, as well as their significance. Each of these points, which may vary from client to client, is addressed individually with the client before the agreement begins.

DMS does not offer side-by-side management.

### **Item 7: Types of Clients**

DMS provides its services to institutional clients such as pension and profit sharing plans, trusts, estates, charitable organizations, corporations and other business entities. DMS does not provide investment advice or investment management services to individuals. There is no minimum account size, but there is a minimum annual fee of \$50,000 per client for DMS services.

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

Investing in securities involves risk of loss that clients should be prepared to bear. DMS clients' assets are typically diversified by asset class and investment style. Material risks such as market risk, interest rate risk, default risk, liquidity risk, and inflation risk are discussed with each client at the total fund, asset class, and security levels as part of the consultative process.

## **PART II (A) of FORM ADV: FIRM BROCHURE**

### Methods of Analysis

DMS uses internally developed research and analysis of the markets and economic conditions to oversee client portfolios. Through a facilities and services agreement with DeMarche Associates, Inc., the firm has access to security, market and economic databases for research. Sources of information DMS uses to make recommendations are financial newspapers and magazines, research materials prepared by DeMarche Associates and others, corporate rating services, and DeMarche's proprietary investment manager database. The methods of security and investment analyses used by the firm include fundamental and quantitative, technical and cyclical analysis.

### Developing and Monitoring Investment Strategies

DMS' service is a dynamic global macro strategy using a three-step investment process:

- The first step in the process is to establish goals and objectives and define benchmark targets/ranges for the client's portfolio. An optimal portfolio structure is identified that provides the greatest potential for achieving return objectives for a given level of risk, developed through efficient frontier modeling. DMS assists the client in determining trustees' expectations for returns and tolerance for risk. During this phase DMS reviews with the trustees the characteristics of the different asset classes available for investment, discusses the advantages (rewards) and disadvantages (risks) of each, and may use questionnaires to identify and quantify individual trustee expectations and concerns. DMS uses mean variance optimization modeling techniques. DMS identifies a range of portfolios that provide the lowest performance variability for the required rate of return. Ultimately clients determine their specific investment policy, including the identification of asset class targets and ranges, and DMS manages the portfolio within those guidelines.
- For the second step, DMS implements the investment policy by determining which current managers, if applicable, should be retained and what changes or additions are needed. DMS selects active managers to manage core sub-allocations using DeMarche's Manager Review Committee (MARC) approved manager universe. DMS will execute tactical shifts, within client-established asset class ranges, based upon portfolio managers reaching consensus on opportunities in the current environment. ETFs/index funds are typically utilized for tactical moves to minimize frequency of disruptions to managers. In the implementation phase, DMS makes every effort to retain existing managers in order to keep transition costs low and not disrupt long-term relationships needlessly. However, if changes are necessary, DMS selects appropriate managers and finds the most cost effective way to transition assets. Investment strategies used to implement investment advice are primarily long-term in nature but may include short-term purchases occasionally.
- Third, DMS provides ongoing monitoring of managers relative to their specific written investment guidelines and performance objectives. The DMS Investment Committee meets at least weekly to review portfolio position (sub-classes and subadvisers) versus policy targets and ranges. Managers are monitored based on the stability of their organization and their adherence to their stated investment style and process and relative to agreed-upon performance benchmarks. Portfolio results are presented quarterly to clients in person or via conference calls.

## **PART II (A) of FORM ADV: FIRM BROCHURE**

### **Item 9: Disciplinary Information**

There has been no regulatory authority investigation of DMS for the past ten years and there is no pending investigation.

### **Item 10: Other Financial Industry Activities or Affiliations**

Some of DMS' management persons are registered as a broker/dealer or a registered representative of a broker/dealer.

Affiliates of DMS include DeMarche Associates, Inc., Kansas City Brokerage, Inc. (KCB) and ENDEX Capital Management LLC (ECM). A brief description and ownership of each affiliate is as follows:

#### **DeMarche Associates, Inc.**

DeMarche Associates, Inc. (DeMarche) is an independently owned investment research and consulting firm and has been in business since 1974. The primary business of DeMarche is to furnish investment advice to institutional investors through consultations. Robert F. Marchesi currently owns a majority interest in DeMarche. Thomas Woolwine, William Miskell and Timothy Marchesi own a minority interest.

DeMarche and DMS have a facility and services agreement under which certain back-office services are provided to DMS by DeMarche, such as accounting, programming/IT and compliance.

#### **Kansas City Brokerage**

DeMarche established Kansas City Brokerage, Inc. (KCB) in 1993 as a subsidiary to accommodate those clients who choose to use third-party payer or directed brokerage services as a method of paying for investment consulting services. KCB is registered with the Securities and Exchange Commission and is a member of the Financial Industry Regulatory Authority (FINRA) as an introducing broker/dealer. All trade execution and clearing services are provided for its customers through a fully disclosed clearing arrangement that it has with BNY ConvergeEx. DeMarche Associates, Inc. currently owns a majority interest in KCB. Robert F. Marchesi owns a minority interest.

DMS does not allow clients to direct brokerage through KCB to pay for investment management services.

#### **ENDEX Capital Management, LLC**

ENDEX is a private, independently-owned investment advisory firm organized in 1997 in the State of Kansas as a Limited Liability Company (LLC). ENDEX provides discretionary investment management services in portfolios of exchange-listed and over-the-counter equity securities. ENDEX is a registered investment advisor with the Securities and Exchange Commission.

ENDEX is owned by four individuals, all of whom serve on the company's Board of Managers. Principal owners are Julie Marchesi, Christine Rudicile, Timothy Marchesi and Jeffrey Hoffman.

## **PART II (A) of FORM ADV: FIRM BROCHURE**

ENDEX and DeMarche Associates, Inc. have a facilities and services agreement, under which certain back-office services are provided to ENDEX by DeMarche, including accounting, programming/IT and compliance.

### **Item 11: Conflicts of Interests and Code of Ethics**

Since its formation in 2007, DMS has maintained written policies and controls to minimize potential conflicts of interest and, it believes, covering a much broader area of control than called for by regulators. Controls include management oversight, internal policies and procedures, portfolio manager training, and both required and voluntary disclosure to clients. DMS policies address not only potential conflicts but also areas such as compensation, entertainment, manager conferences, etc.

DMS has adopted a Code of Ethics, a copy of which is available to any client or prospective client upon request. DMS has a strict policy on accepting gifts and entertainment from investment managers. All principals and employees are required by DMS to act according to its Code of Ethics and must affirm and acknowledge annually their understanding and agreement to comply with the Code. In addition, principals and employees are required to submit quarterly security transaction reports and annual securities holdings reports to DMS for compliance review and record retention. Failure to comply may result in termination of employment.

### **Item 12: Brokerage Practices**

Broker-dealers are selected based on their cost (per share of the transaction), their efficiency and responsiveness in completing the transaction. The securities DMS trades for client accounts have liquid markets so the cost per share is fairly standardized.

DMS does not receive research or other products or services in connection with client securities transactions. DMS does not receive client referrals from a broker/dealer or third party for recommending broker/dealers. DMS does not recommend, request, or require that a client direct DMS to execute transactions through a specified broker-dealer.

Purchase and sale orders for client accounts are aggregated with the broker as needed. Many clients have unique portfolios, and therefore, not all clients will trade the same securities on a given day.

### **Item 13: Review of Accounts**

The Chief Investment Officers and Portfolio Managers of DMS are responsible for the internal reviews of accounts and the underlying investment managers or funds. Weekly reviews determine if the portfolios are invested in accordance with client guidelines, and that managers and funds are performing in line with their investment style benchmarks.

DMS prepares written quarterly performance reports and delivers and presents such reports after the close of each calendar quarter. Reports include a capital markets review, an asset allocation summary, an asset distribution breakout by market value, a comparison of the investment



## **PART II (A) of FORM ADV: FIRM BROCHURE**

performance versus appropriate benchmarks, risk analysis, performance attribution, and investment manager style analysis. Reviews with clients are done by DMS representatives, which could include the President, Secretary/Treasurer, Chief Investment Officers and Portfolio Managers in person or via conference call.

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

DMS may compensate DeMarche Consultants for client referrals. No one who is not a client provides an economic benefit to DMS for providing investment advice or other advisory service to clients.

### **Item 15: Custody**

DMS does not have custody of client funds or securities. DMS urges clients to compare account statements they receive from their qualified custodian(s) and investment managers with any report they receive from DMS.

### **Item 16: Investment Discretion**

DMS is authorized by its clients to determine without specific consent the securities and amounts of securities to be purchased or sold, subject only to client guidelines. Clients may place limitations on DMS discretionary authority through investment guidelines and through the client agreement for services that is required prior to any discretionary relationship with DMS.

### **Item 17: Voting Client Securities**

DMS does not vote client securities. Clients will typically receive their proxies directly from their custodian.

### **Item 18: Financial Information**

DMS does not require or solicit prepayment of client fees. DMS does not have custody of client funds or securities. DMS has not been the subject of a bankruptcy petition at any time and is not aware of any condition that is reasonably likely to impair its ability to meet contractual commitments to clients.