

Disclosure Brochure

March 28, 2014

KHC Wealth Management

a Registered Investment Adviser

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This brochure provides information about the qualifications and business practices of KHC Wealth Management (hereinafter "KHC"). If you have any questions about the contents of this brochure, please contact Stewart Koesten at (913) 345-1881. 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 KHC Wealth Management is available on the SEC's website at www.adviserinfo.sec.gov.

KHC Wealth Management is an SEC registered investment adviser. Registration does not imply any level of skill or training.

Item 2. Material Changes

This Item discusses only the material changes that have occurred since KHC's last annual update filed April 1, 2013. KHC does not have any material changes to disclose in this Item.

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Supervised Person Brochure Supplements

Item 4. Advisory Business

KHC is an investment adviser providing financial planning, consulting, and investment management services. Prior to engaging KHC to provide any of the foregoing investment advisory services, the client is required to enter into one or more written agreements with KHC setting forth the terms and conditions under which KHC renders its services (collectively the “*Agreement*”). Neither KHC nor the client may assign the *Agreement* without the consent of the other party. A transaction that does not result in a change of actual control or management of KHC is not considered an assignment.

KHC has been in business since February 3, 1997. Stewart Koesten and Matthew Starkey are the principal owners of KHC. KHC has \$270,692,608 of assets under management as of March 12, 2014, all of which are managed on a discretionary basis.

This disclosure brochure describes the business of KHC. Certain sections will also describe the activities of *Supervised Persons*. *Supervised Persons* are any of KHC’s officers, partners, directors (or other persons occupying a similar status or performing similar functions), or employees, or any other person who provides investment advice on KHC’s behalf and is subject to KHC’s supervision or control.

Financial Planning and Consulting Services

KHC may provide its clients with a broad range of comprehensive financial planning and consulting services (which may include non-investment related matters). These services vary, depending upon the engagement:

Comprehensive Financial Planning Services

Under a Comprehensive Financial Planning engagement, KHC provides a review of the client’s financial and related situation and will prepare a detailed Financial Planning Case Analysis (the “*Analysis*”). KHC’s comprehensive financial planning services also include the investment management services described below. KHC will conduct necessary interviews of the client to determine personal financial objectives and in-depth examination and analyses of the client’s financial documents and situation. KHC reviews the client’s assets and liabilities, current and projected income and expenses, insurance program and investment portfolio. An *Analysis* is developed, with a complete outline of many aspects of the client’s current financial circumstances.

The *Analysis* is presented and fully explained to the client. A complete description of the various recommendations and plan options available to the client for implementation are also included in the *Analysis*.

During the Comprehensive Financial Planning engagement, KHC conducts periodic sessions to review the client’s financial situation. Each review will typically focus on a portion of the financial plan so that the entire plan is reviewed in detail over the course of a year. The reviews include an interview to obtain current information and update segments of the *Analysis* as needed. The update is presented to the

client, along with new recommendations as needed. Planners are available to provide counseling during the ongoing engagement and will contact the client periodically to record progress.

Non-Comprehensive Financial Planning and Consulting Services

In addition to the comprehensive services described above, KHC may also be engaged to provide its clients with a broad range of non-comprehensive financial planning and consulting services.

In performing the planning and consulting services, KHC is not required to verify any information received from the client or from the client's other professionals (e.g., attorney, accountant, etc.) and is expressly authorized to rely on such information. KHC may recommend the services of itself, and/or other professionals to implement its recommendations. Clients are advised that a conflict of interest exists if KHC recommends its own services. The client is under no obligation to act upon any of the recommendations made by KHC under a financial planning or consulting engagement or to engage the services of any such recommended professional, including KHC itself. The client retains absolute discretion over all such implementation decisions and is free to accept or reject any of KHC's recommendations. Clients are advised that it remains their responsibility to promptly notify KHC if there is ever any change in their financial situation or investment objectives for the purpose of reviewing, evaluating, or revising KHC's previous recommendations and/or services.

Human Capital Services

In addition to the above, KHC also offers Human Capital Services. These services include executive coaching, career transition planning, career coaching, career path planning, and compensation consulting.

Investment Management Services

Clients can engage KHC to manage all or a portion of their assets on a discretionary basis. KHC offers this as a stand-alone service or as part of the Comprehensive Financial Planning engagement described above.

KHC primarily allocates clients' investment management assets among *Independent Managers* (as defined below), mutual funds, exchange-traded funds ("ETFs"), and individual debt and equity securities in accordance with the investment objectives of the client. In addition, KHC may recommend that clients who are "accredited investors" as defined under Rule 501 of the Securities Act of 1933, as amended, invest in private placement securities, which may include debt, equity, and/or pooled investment vehicles when consistent with the clients' investment objectives.

Where appropriate, the KHC may also provide advice about any type of legacy position or other investment held in client portfolios.

KHC also may render non-discretionary investment management services to clients relative to variable life/annuity products that they may own, their individual employer-sponsored retirement plans, and/or 529 plans or other products that may not be held by the client's primary custodian. In so doing, KHC either directs or recommends the allocation of client assets among the various investment options that are available with the product. Client assets are maintained at the specific insurance company or custodian designated by the product.

KHC tailors its advisory services to the individual needs of clients. KHC consults with clients initially and on an ongoing basis to determine risk tolerance, time horizon and other factors that may impact the clients' investment needs. KHC ensures that clients' investments are suitable for their investment needs, goals, objectives and risk tolerance.

Clients are advised to promptly notify KHC if there are changes in their financial situation or investment objectives, or if they wish to impose any reasonable restrictions upon KHC's management services.

Use of Independent Managers

As mentioned above under Investment Management Services, KHC recommends that certain clients authorize the active discretionary management of a portion of their assets by and/or among certain independent investment managers ("*Independent Managers*"), based upon the stated investment objectives of the client. The terms and conditions under which the client engages the *Independent Managers* are set forth in a separate written agreement between KHC or the client and the designated *Independent Managers*. KHC renders services to the client relative to the discretionary selection of *Independent Managers*. KHC also monitors and reviews the account performance and the client's investment objectives. KHC receives an annual advisory fee which is based upon a percentage of the market value of the assets being managed by the designated *Independent Managers*.

When selecting an *Independent Manager* for a client, KHC reviews information about the *Independent Manager* such as its disclosure statement and/or material supplied by the *Independent Manager* or independent third parties for a description of the *Independent Manager's* investment strategies, past performance and risk results to the extent available. Factors that KHC considers in recommending an *Independent Manager* include the client's stated investment objectives, management style, performance, reputation, financial strength, reporting, pricing, and research. The investment management fees charged by the designated *Independent Managers*, together with the fees charged by the corresponding designated broker-dealer/custodian of the client's assets, may be exclusive of, and in addition to, KHC's investment advisory fee set forth above. As discussed above, the client may incur additional fees than those charged by KHC, the designated *Independent Managers*, and corresponding broker-dealer and custodian.

In addition to KHC's written disclosure statement, the client also receives the written disclosure statement of the designated *Independent Managers*. Certain *Independent Managers* may impose more restrictive

account requirements and varying billing practices than KHC. In such instances, KHC may alter its corresponding account requirements and/or billing practices to accommodate those of the *Independent Managers*.

If KHC refers a client to an *Independent Manager* where KHC's compensation is included in the advisory fee charged by such *Independent Manager* and the client engages the *Independent Manager*, KHC shall be compensated for its services by receipt of a fee to be paid directly by the *Independent Manager* to KHC in accordance with the requirements of Rule 206(4)-3 of the Investment Advisers Act of 1940, as amended, and any corresponding state securities laws, rules, regulations, or requirements. Any such fee is paid solely from the *Independent Manager's* investment management fee, and does not result in any additional charge to the client.

Item 5. Fees and Compensation

KHC offers its services on a fee basis, which may include hourly fees, as well as fees based upon assets under management or investable net worth (as defined below under "Comprehensive Financial Planning Fee").

Comprehensive Financial Planning and Investment Management Fee

KHC provides comprehensive financial planning (including investment management services, or investment management services alone (without financial planning services) for an annual fee based respectively upon a percentage of the client's investable net worth or the market value of the assets being managed by KHC. KHC's annual fee is exclusive of, and in addition to brokerage commissions, transaction fees, and other related costs and expenses which are incurred by the client. KHC does not, however, receive any portion of these commissions, fees, and costs.

Comprehensive Financial Planning Fee

For Comprehensive Financial Planning services, KHC charges clients based upon a percentage of their investable net worth, which is equal to a client's total assets minus personal use assets minus investment debt. The total fee is calculated by applying a fee schedule rate to the client's investable net worth. The total fee is then bifurcated into (1) an asset management fee component and (2) a financial planning fee component. The asset management fee component is calculated as a percentage of the market value of the portfolio assets under management as described below in "Investment Management Services." The asset management fee component is billed quarterly, in advance, based on the value of the portfolio on the last day of the preceding quarter. Thus, the asset management fee component may vary with changes in the portfolio value. The financial planning fee component is a fixed fee that is determined ordinarily by subtracting the estimated annual asset management fee from the total fee. However, in certain instances, a client's portfolio assets under management may constitute all or a substantial portion

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of the client's investable net worth such that the asset management fee component would nearly replicate the total fee. In such instances, KHC imposes a minimum financial planning fee component. Please see Item 7 below for detailed information about minimum fees for our Comprehensive Financial Planning services. The financial planning fee is also billed quarterly, in advance.

The client's investable net worth is determined annually by KHC. Under this fee arrangement, there is the potential for a conflict of interest in that the valuation is not independently determined. KHC has a fiduciary duty to act in the best interest of its clients and will discuss the valuation methodology used to determine the client's investable net worth and portfolio value at the client's request. The annual total fee rate is subject to change with written notice, but generally varies (between 0.50% and 1.20%) depending upon the investable net worth as follows:

<u>INVESTABLE NET WORTH</u>	<u>BASE FEE</u>
First \$500,000	1.20%
\$500,001 to \$1,000,000	1.00%
\$1,000,001 to \$5,000,000	0.80%
\$5,000,001 to \$10,000,000	0.60%
above \$10,000,000	0.50%

Investment Management Services

Clients can also engage KHC to provide investment management services without any of the additional services discussed in the Comprehensive Planning section, above. KHC's annual fee for investment management services alone is based upon the market value of the portfolio assets on the last day of the preceding quarter. The investment management fee is billed quarterly, in advance and will be prorated for any partial period in which services are provided. The annual fee rate is subject to change with written notice, but generally varies (typically between 0.50% and 1.25%) depending upon the market value of the assets under management, as follows:

<u>PORTFOLIO VALUE</u>	<u>BASE FEE</u>
First \$500,000	1.20%
\$500,001 to \$1,000,000	1.00%
\$1,000,001 to \$5,000,000	0.80%
\$5,000,001 to \$10,000,000	0.60%
above \$10,000,000	0.50%

KHC's fees for Comprehensive Financial Planning and investment management services are subject to change at any time upon KHC's written notice to a client. Following such notice, a client will be deemed to have approved such change in fees unless he or she sends a written notice of objection to KHC within 30 days. In addition, KHC, in its sole discretion, may negotiate to charge a lesser total annual fee based

upon certain criteria (i.e., anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client, account retention, pro bono activities, etc.).

Financial Planning and Consulting Fees

KHC may charge a fixed fee and/or hourly fee for financial planning and consulting services that fall outside of the Comprehensive Financial Planning services discussed above. These fees are negotiable, but generally range from \$100 to \$275 on an hourly rate basis. Fixed fees are determined based upon the amount of services to be provided. The hourly and fixed fees depend upon the level and scope of the services and the professional rendering the financial planning and/or the consulting services.

Prior to engaging KHC to provide financial planning and/or consulting services, the client is required to enter into a written agreement with KHC setting forth the terms and conditions of the engagement. Generally, KHC requires one-half of the financial planning / consulting fee (estimated hourly or fixed) payable upon entering the written agreement. The balance is generally due upon delivery of the financial plan or completion of the agreed upon services.

KHC, in its sole discretion, may negotiate to charge a lesser financial planning and consulting services fee based upon certain criteria (i.e., anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client, account retention, *pro bono* activities, etc.).

Fees Charged by Financial Institutions

As further discussed in response to Item 12 (below), KHC generally recommends that clients utilize the brokerage and clearing services of Raymond James Financial Services, Inc. ("*RJFS*") or Charles Schwab & Co., Inc. ("*Schwab*") for investment management accounts.

KHC may only implement its investment management recommendations after the client has arranged for and furnished KHC with all information and authorization regarding accounts with appropriate financial institutions. Financial institutions include, but are not limited to, *RJFS*, *Schwab*, any other broker-dealer recommended by KHC, broker-dealer directed by the client, trust companies, banks etc. (collectively referred to herein as the "*Financial Institutions*").

Clients may incur certain charges imposed by the *Financial Institutions* and other third parties such as fees charged by *Independent Managers* (as defined below), custodial fees, charges imposed directly by a mutual fund or ETF in the account, which shall be disclosed in the fund's prospectus (e.g., fund management fees and other fund expenses), deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Additionally, for assets outside of any wrap fee programs, clients may incur brokerage

commissions and transaction fees. Such charges, fees and commissions are exclusive of and in addition to KHC's fee.

KHC's *Agreement* and the separate agreement with any *Financial Institutions* authorizes KHC or *Independent Managers* to debit the client's account for the amount of KHC's fee and to directly remit that management fee to KHC or the *Independent Managers*. Any *Financial Institutions* recommended by KHC have agreed to send a statement to the client, at least quarterly, indicating all amounts disbursed from the account including the amount of management fees paid directly to KHC.

Fees for Management During Partial Periods of Service

For the initial period of investment management services, the fees shall be calculated on a *pro rata* basis.

The *Agreement* between KHC and the client will continue in effect until terminated by either party pursuant to the terms of the *Agreement*. KHC's fees are prorated through the date of termination and any remaining balance is charged or refunded to the client, as appropriate.

Additions may be in cash or securities provided that KHC reserves the right to liquidate any transferred securities or decline to accept particular securities into a client's account. KHC may consult with its clients about the options and ramifications of transferring securities. However, clients are advised that when transferred securities are liquidated, they are subject to transaction fees, fees assessed at the mutual fund level (i.e. contingent deferred sales charge) and/or tax ramifications.

Clients may make additions to and withdrawals from their account at any time, subject to KHC's right to terminate an account. Clients may withdraw account assets on notice to KHC, subject to the usual and customary securities settlement procedures. However, KHC designs its portfolios as long-term investments and the withdrawal of assets may impair the achievement of a client's investment objectives. If assets are deposited into or withdrawn from an account after the inception of a quarter that exceed \$10,000, the fee payable with respect to such assets will be prorated based on the number of days remaining in the quarter.

Item 6. Performance-Based Fees and Side-by-Side Management

KHC does not provide any services for performance-based fees. Performance-based fees are those based on a share of capital gains on or capital appreciation of the assets of a client.

Item 7. Types of Clients

KHC provides its services to individuals, pension and profit sharing plans, trusts, estates, charitable organizations, corporations and other business entities.

Minimum Fee

As a condition for starting and maintaining a relationship, KHC generally imposes a minimum annual total fee of \$7,000 for Comprehensive Financial Planning services, which includes a minimum annual financial planning fee component of \$4,000. This minimum fee may have the effect of making KHC's service impractical for clients, particularly those with portfolios less than \$1,000,000 under KHC's management or a family income under \$250,000.

For investment management clients with less than \$250,000 in investable net worth, the firm charges a minimum fee of \$3,000.

KHC does not impose a minimum annual fee for its fixed/hourly financial planning and consulting services that fall outside of the Comprehensive Financial Planning services.

KHC, in its sole discretion, may waive its minimum annual fees based upon certain criteria including anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client, account retention, and *pro bono* activities.

Additionally, certain *Independent Managers* may impose more restrictive account requirements and varying billing practices than KHC. In such instances, KHC may alter its corresponding account requirements and/or billing practices to accommodate those of the *Independent Managers*.

Item 8. Methods of Analysis, Investment Strategies and Risk of Loss

Methods of Analysis and Investment Strategies

KHC's investment management style may have an impact on performance. KHC manages client portfolios using a combination of both active and passive management styles, based on the belief that while passive (index-based) investment management is well-diversified and effective in some parts of the markets some of the time, not all parts of all markets all the time are well suited to the passive approach. In those areas KHC deems as less efficient, KHC may pick stocks and bonds or may choose to try to pick those managers who have successful track records in these areas.

KHC primarily utilizes Modern Portfolio Theory as its method of analysis. Modern Portfolio Theory, as recognized by the 1990 Nobel Prize, is the philosophical foundation for how client portfolios are structured and how subsequent decisions are made. The philosophy is summarized as follows:

- 1) Investors are risk averse. The only acceptable risk is that which is adequately compensated by potential portfolio returns

- 2) Markets are efficient. It is virtually impossible to anticipate the future direction of the market as a whole or of any individual security. It is therefore, unlikely that any portfolio will succeed in consistently “beating the market.”
- 3) The design of a client’s portfolio as a whole is more important than the selection of any particular security within the portfolio. The appropriate allocation of capital among asset classes will have far more influence on long-term portfolio results than the selection of individual securities. Investing for the long term becomes critical to investment success because it allows the long-term characteristics of the asset classes to surface.
- 4) For a given risk level, an optimal combination of asset classes will maximize returns. Diversification helps reduce investment volatility. The proportional mix of asset classes determines the long-term risk and return characteristics of the portfolio as a whole.
- 5) Portfolio risk can be decreased by increasing diversification of the portfolio and by lowering the correlation of market behavior among the asset classes selected.

KHC believes that investing globally helps to minimize overall portfolio risk due to the imperfect correlation between economies of the world. Investing globally has also been shown historically to enhance portfolio returns, although there is no guarantee that it will do so in the future.

KHC believes that equities offer the potential for higher long-term investment returns than cash or fixed income investments. Equities are, however, typically more volatile in their performance. Investors seeking higher rates of return must increase the proportion of equities in their portfolio, while at the same time accepting greater variation of results.

KHC avoids trying to “beat the market” by picking individual securities and timing the purchase or sale of investments. KHC feels that such a practice is highly unlikely to increase long-term investment returns and can significantly increase portfolio operating costs.

Given these tenets, the underlying approach to managing client assets shall be to optimize the risk-return relationship appropriate to clients’ needs and goals. Client assets will be diversified globally employing a variety of asset classes. Mutual funds or *Independent Managers* will be employed to implement to portfolio and the chosen asset classes will be periodically re-balanced to maintain a more consistent risk/reward profile. In managing investment assets, every advisor has a unique style.

Risks

General Risks of Investing in Securities

Investing in securities involves the risk of loss. Clients should be prepared to bear such loss.

Mutual Funds and ETFs

An investment in a mutual fund or ETF involves risk, including the loss of principal. Mutual funds and ETFs are subject to secondary market trading risks. Shares of mutual funds and ETFs will be listed for trading on an exchange, however, there can be no guarantee that an active trading market for such shares will develop or continue. There can be no guarantee that a mutual funds' and ETFs' exchange listing or ability to trade its shares will continue or remain unchanged. Shares of the mutual fund or ETF may trade on an exchange at prices at, above or below their most recent net asset valuation (NAV), which represents the price at which an investor would hypothetically buy or sell the mutual fund or ETF. The per share NAV of a mutual fund is calculated at the end of each business day, and fluctuates with changes in the market value of the mutual fund's holdings. The trading prices of a mutual fund's or ETF's shares may differ significantly from NAV during periods of market volatility, which may, among other factors, lead to the mutual fund's or ETF's shares trading at a premium or discount to NAV.

Market Risks

The profitability of a significant portion of KHC's recommendations may depend to a great extent upon correctly assessing the future course of price movements of stocks and bonds. There can be no assurance that KHC will be able to predict those price movements accurately.

Use of Independent Managers

KHC may recommend the use of *Independent Managers* for certain clients. KHC will continue to do ongoing due diligence of such managers, but the such recommendations relies, to a great extent, on the *Independent Managers* ability to successfully implement their investment strategy. In addition, KHC does not have the ability to supervise the *Independent Managers* on a day-to-day basis, if at all.

Use of Private Collective Investment Vehicles

KHC may recommend the investment by certain clients in privately placed collective investment vehicles (some of which may be typically called "hedge funds"). The managers of these vehicles will have broad discretion in selecting the investments. There are few limitations on the types of securities or other financial instruments which may be traded and no requirement to diversify. The hedge funds may trade on margin or otherwise leverage positions, thereby potentially increasing the risk to the vehicle. In addition, because the vehicles are not registered as investment companies, there is an absence of regulation. There are numerous other risks in investing in these securities. The client will receive a private placement memorandum and/or other documents explaining such risks.

Item 9. Disciplinary Information

KHC is required to disclose the facts of any legal or disciplinary events that are material to a client's evaluation of its advisory business or the integrity of management. KHC does not have any required disclosures to this Item.

Item 10. Other Financial Industry Activities and Affiliations

KHC is required to disclose any relationship or arrangement that is material to its advisory business or to its clients with certain related persons. KHC does not have any required disclosures to this Item.

Item 11. Code of Ethics

KHC and persons associated with KHC ("Associated Persons") are permitted to buy or sell securities that it also recommends to clients consistent with KHC's policies and procedures.

KHC has adopted a code of ethics that sets forth the standards of conduct expected of its associated persons and requires compliance with applicable securities laws ("*Code of Ethics*"). KHC's *Code of Ethics* contains written policies reasonably designed to prevent the unlawful use of material non-public information by KHC or any of its associated persons. The *Code of Ethics* also requires that certain of KHC's personnel (called "*Access Persons*") report their personal securities holdings and transactions and obtain pre-approval of certain investments such as initial public offerings and limited offerings.

When KHC is engaging in or considering a transaction in any security on behalf of a client, no *Access Person* may effect for themselves or for their immediate family (i.e., spouse, minor children, and adults living in the same household as the *Access Person*) a transaction in that security unless:

- the transaction has been completed;
- the transaction for the *Access Person* is completed as part of a batch trade (as defined below in Item 12) with clients; or
- a decision has been made not to engage in the transaction for the client.

These requirements are not applicable to: (i) direct obligations of the Government of the United States; (ii) money market instruments, bankers' acceptances, bank certificates of deposit, commercial paper, repurchase agreements and other high quality short-term debt instruments, including repurchase agreements; (iii) shares issued by mutual funds or money market funds; and (iv) shares issued by unit investment trusts that are invested exclusively in one or more mutual funds.

This *Code of Ethics* has been established recognizing that some securities trade in sufficiently broad markets to permit transactions by *Access Persons* to be completed without any appreciable impact on the markets of such securities. Therefore, under certain limited circumstances, exceptions may be made to the policies stated above.

Clients and prospective clients may contact KHC to request a copy of its *Code of Ethics*.

Item 12. Brokerage Practices

As discussed above, in Item 5, KHC generally recommends that clients utilize the brokerage and clearing services of *RJFS* or *Schwab*.

Factors which KHC considers in recommending *RJFS*, *Schwab* or any other broker-dealer to clients include their respective financial strength, reputation, execution, pricing, research and service. *RJFS* and *Schwab* enable KHC to obtain many mutual funds without transaction charges and other securities at nominal transaction charges. The commissions and/or transaction fees charged by *RJFS* and *Schwab* may be higher or lower than those charged by other *Financial Institutions*.

The commissions paid by KHC's clients comply with KHC's duty to obtain "best execution." Clients may pay commissions that are higher than another qualified *Financial Institution* might charge to effect the same transaction where KHC determines that the commissions are reasonable in relation to the value of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a *Financial Institution's* services, including among others, the value of research provided, execution capability, commission rates, and responsiveness. KHC seeks competitive rates but may not necessarily obtain the lowest possible commission rates for client transactions.

Transactions may be cleared through other *Financial Institutions* with whom KHC and the *Financial Institutions* have entered into agreements for prime brokerage clearing services. KHC periodically and systematically reviews its policies and procedures regarding its recommendation of *Financial Institutions* in light of its duty to obtain best execution.

The client may direct KHC in writing to use a particular *Financial Institution* to execute some or all transactions for the client. In that case, the client will negotiate terms and arrangements for the account with that *Financial Institution*, and KHC will not seek better execution services or prices from other *Financial Institutions* or be able to "batch" client transactions for execution through other *Financial Institutions* with orders for other accounts managed by KHC (as described below). As a result, the client may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case. Subject to its duty of best execution, KHC may decline a client's request to direct brokerage if, in KHC's sole discretion, such directed brokerage arrangements would result in additional operational difficulties.

Transactions for each client generally will be effected independently, unless KHC decides to purchase or sell the same securities for several clients at approximately the same time. KHC may (but is not obligated to) combine or "batch" such orders to obtain best execution, to negotiate more favorable commission rates, or to allocate equitably among KHC's clients differences in prices and commissions or other transaction costs that might have been obtained had such orders been placed independently. Under this procedure, transactions will generally be averaged as to price and allocated among KHC's clients pro rata to the purchase and sale orders placed for each client on any given day. To the extent that KHC

determines to aggregate client orders for the purchase or sale of securities, including securities in which KHC's *Supervised Persons* may invest, KHC shall generally do so in accordance with applicable rules promulgated under the Advisers Act and no-action guidance provided by the staff of the U.S. Securities and Exchange Commission. KHC shall not receive any additional compensation or remuneration as a result of the aggregation. In the event that KHC determines that a prorated allocation is not appropriate under the particular circumstances, the allocation will be made based upon other relevant factors, which may include: (i) when only a small percentage of the order is executed, shares may be allocated to the account with the smallest order or the smallest position or to an account that is out of line with respect to security or sector weightings relative to other portfolios, with similar mandates; (ii) allocations may be given to one account when one account has limitations in its investment guidelines which prohibit it from purchasing other securities which are expected to produce similar investment results and can be purchased by other accounts; (iii) if an account reaches an investment guideline limit and cannot participate in an allocation, shares may be reallocated to other accounts (this may be due to unforeseen changes in an account's assets after an order is placed); (iv) with respect to sale allocations, allocations may be given to accounts low in cash; (v) in cases when a pro rata allocation of a potential execution would result in a *de minimis* allocation in one or more accounts, KHC may exclude the account(s) from the allocation; the transactions may be executed on a pro rata basis among the remaining accounts; or (vi) in cases where a small proportion of an order is executed in all accounts, shares may be allocated to one or more accounts on a random basis.

Consistent with obtaining best execution, brokerage transactions may be directed to certain broker-dealers in return for investment research products and/or services which assist KHC in its investment decision-making process. Such research generally will be used to service all of KHC's clients, but brokerage commissions paid by one client may be used to pay for research that is not used in managing that client's portfolio. The receipt of investment research products and/or services as well as the allocation of the benefit of such investment research products and/or services poses a conflict of interest because KHC does not have to produce or pay for the products or services.

Software and Support Provided by Financial Institutions

KHC may receive from *RJFS* and *Schwab*, without cost to KHC, computer software and related systems support, which allow KHC to better monitor client accounts maintained at *RJFS* and *Schwab*. KHC may receive the software and related support without cost because KHC renders investment management services to clients that maintain assets at *RJFS* or *Schwab*. The software and support is not provided in connection with securities transactions of clients (i.e., not "soft dollars"). The software and related systems support may benefit KHC, but not its clients directly. In fulfilling its duties to its clients, KHC endeavors at all times to put the interests of its clients first. Clients should be aware, however, that KHC's receipt of economic benefits from a broker-dealer creates a conflict of interest since these benefits may influence KHC's choice of broker-dealer over another broker-dealer that does not furnish similar software, systems support, or services.

KHC may also receive a discount on PortfolioCenter® software service from *Schwab* so long as KHC maintains a minimum level of client assets at *Schwab*.

Additionally, KHC may receive the following benefits from *RJFS* and *Schwab* through their respective institutional divisions: receipt of duplicate client confirmations and bundled duplicate statements; access to a trading desk that exclusively services institutional participants; access to block trading which provides the ability to aggregate securities transactions and then allocate the appropriate shares to client accounts; and access to an electronic communication network for client order entry and account information.

KHC may also receive other economic benefits in the form of educational conferences and meetings and related materials sponsored by various mutual funds, insurance and annuity companies and other vendors. KHC may also receive monetary support for technological, marketing and advertising needs from these entities which may be used towards KHC's own client events. Clients are advised that a conflict of interest exists to the extent KHC recommends products of these mutual fund families, insurance annuity companies or other vendors. However, the client is under no obligation to purchase these products, and KHC shall not receive any other form of compensation from the mutual fund families, annuity companies or vendors for these events other than as set forth herein.

Item 13. Review of Accounts

Financial Planning: For those clients to whom KHC provides Comprehensive Financial Planning Services, financial planning reviews are conducted three times per year while the investment management portfolios are reviewed on at least a quarterly basis. The reviewers of the Comprehensive Financial Planning Services and the investment management portfolios are Matthew D. Starkey, KHC's President and/or Stewart S. Koesten, KHC's Executive Chairman and Compliance Officer.

Investment Management: For those clients to whom KHC provides only investment management services (without any Comprehensive Financial Planning), KHC monitors those portfolios as part of an ongoing process with regular account reviews conducted on at least a quarterly basis. Stewart S. Koesten and/or Matthew Starkey review investment management clients' portfolios.

All investment advisory clients are encouraged to discuss their needs, goals, and objectives with KHC and to keep KHC informed of any changes thereto. KHC shall contact ongoing investment advisory clients at least annually to review its previous services and/or recommendations and to discuss the impact resulting from any changes in the client's financial situation and/or investment objectives.

Unless otherwise agreed upon, clients are provided with transaction confirmation notices and regular summary account statements directly from the broker-dealer or custodian for the client accounts. Investment management clients will also receive regular reports about their portfolio holdings and trading

activity as of the end of a reporting period, along with other relevant information. Clients should compare the account statements they receive from their custodian with those they receive from KHC.

Those clients to whom KHC provides financial planning and/or consulting services will receive reports from KHC summarizing its analysis and conclusions as requested by the client or otherwise agreed to in writing by KHC.

Item 14. Client Referrals and Other Compensation

Client Referrals

KHC is required to disclose any direct or indirect compensation that it provides for client referrals. KHC does not have any required disclosures to this Item.

Other Economic Benefits

In addition, KHC is required to disclose any relationship or arrangement where it receives an economic benefit from a third party (non-client) for providing advisory services. This type of relationship poses a conflict of interest and any such relationship is disclosed in response to Item 12, above.

Item 15. Custody

KHC's *Agreement* and/or the separate agreement with any *Financial Institution* may authorize KHC through such *Financial Institution* to debit the client's account for the amount of KHC's fee and to directly remit that management fee to KHC in accordance with applicable custody rules.

The *Financial Institutions* recommended by KHC have agreed to send a statement to the client, at least quarterly, indicating all amounts disbursed from the account including the amount of management fees paid directly to KHC. In addition, as discussed in Item 13, KHC also sends periodic supplemental reports to clients. Clients should carefully review the statements sent directly by the *Financial Institutions* and compare them to those received from KHC.

Item 16. Investment Discretion

KHC is given the authority to exercise discretion on behalf of clients. KHC is considered to exercise investment discretion over a client's account if it can effect transactions for the client without first having to seek the client's consent. KHC is given this authority through a power-of-attorney included in the

agreement between KHC and the client. Clients may request a limitation on this authority (such as certain securities not to be bought or sold). KHC takes discretion over the following activities:

- The securities to be purchased or sold;
- The amount of securities to be purchased or sold;
- When transactions are made;
- The *Financial Institutions* to be utilized; and
- The *Independent Managers* to be hired or fired.

Item 17. Voting Client Securities

KHC is required to disclose if it accepts authority to vote client securities. KHC does not vote client securities on behalf of its clients.

Item 18. Financial Information

KHC is not required to disclose any financial information pursuant to this Item due to the following:

- KHC does not require or solicit the prepayment of more than \$1,200 in fees six months or more in advance of services rendered;
- KHC does not have a financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients; and
- KHC has not been the subject of a bankruptcy petition at any time during the past ten years.

KHC Wealth Management

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