

## **KLS Professional Advisors Group, LLC**

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### **FORM ADV PART 2 BROCHURE**

**This brochure provides information about the qualifications and business practices of KLS Professional Advisors, LLC. If you have any questions about the contents of this brochure, please contact us at (212) 355-0346. 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 KLS Professional Advisors Group, LLC is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The searchable IARD/CRD number for KLS Professional Advisors Group, LLC is 133319.**

**KLS Professional Advisors Group, LLC is a Registered Investment Adviser. Registration with the United States Securities and Exchange Commission or any state securities authority does not imply a certain level of skill or training.**

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## **Advisory Business**

Form ADV Part 2A, Item 4

KLS Professional Advisors Group, LLC was founded in November 2004 and became a wholly owned subsidiary of Boston Private Financial Holdings, Inc., Boston, Massachusetts on January 1, 2010.

### **Assets Under Management as of December 31, 2013:**

	<u>US Dollars</u>	<u>Number of Accounts</u>
Discretionary	\$4,897,589,162.00	5586
Non-Discretionary	728,899,220.00	2796
Total:	\$5,626,488,382.00	8382

### **Services:**

KLS Professional Advisors Group, LLC (the "Advisor") may provide five separate packages of services to Clients:

- Wealth Management
- Estate Planning
- Financial Planning
- Income Tax Preparation
- KLS Investment Management

### **Wealth Management:**

In the initial year, Clients will receive a written Financial Management Report addressing:

- Analysis of the Client's current financial position
- Recommended allocation of the Client's investable funds
- Recommendations regarding budgeting and savings to better meet the Client's major financial objectives
- Recommendations regarding retirement planning
- Recommendations regarding life and disability insurance
- Income tax review, income tax projection and long term income planning strategies
- Economic and tax review of wills and estates

In addition, each year Clients will receive:

- Continuous monitoring of securities portfolios and effectuating securities transactions on behalf of the Client
- Ongoing management and implementation of matters addressed in the Financial Management Report
- Preparation of individual income tax returns if desired
- Personal consultations as appropriate to address financial management, tax and specific investment concerns

The Advisor does not manage individual stocks that are held in a Client's account. Further, the Advisor does not include such individual stocks in performance reporting and monitoring.

### **Estate Planning:**

Clients with complex estates who engage the Advisor solely for estate planning advice will receive specific recommendations regarding the restructuring of their estates, with a view toward minimizing their estate tax liability consistent with meeting other estate objectives.

**Tax Preparation:**

Clients with particularly complex tax situations who retain the Advisor solely for tax advice and return preparation will receive:

- Preparation of tax returns
- Tax review, projection and tax planning strategies

**KLS Investment Management:**

Clients will receive continuous monitoring of securities portfolios and effectuating securities transactions.

## ***Fees and Compensation***

Form ADV Part 2A, Item 5

### **Wealth Management:**

The fee for this service is a fixed negotiated fee payable in the initial year 50% upon the commencement of the engagement, 35% three months following the commencement of the engagement, and the balance six months following the commencement of the engagement. Following the initial year, Clients who continue to retain KLS will pay the 50% balance of their fee in two equal installments of 25% each three and six months following the renewal of the engagement. Payment terms for large accounts are negotiated.

### **Estate Planning:**

The fee for this service will vary depending upon complexity and magnitude of the estate and will be payable 50% upon the commencement of the engagement and the remainder upon the delivery of the Estate Plan.

### **Tax Preparation:**

The fee for this service will vary depending upon the complexity of the Client's tax returns. (Not available for new clients.)

### **Additional Information:**

Fees and services for institutional Clients engaging the Advisor on behalf of a number of key employees, and certain supplemental services for existing Clients, are subject to negotiation. In addition, for engagements in which the Client's tax returns are of greater than normal complexity, or involve the preparation of additional returns (for example, multi-state, gift tax, or children's returns), additional fees as appropriate will be charged.

To the extent additional work beyond the scope of the normal engagement is required, fees ranging from \$250-\$800 per hour will be charged.

Clients may request that the Advisor manage assets held in custodial or other fiduciary accounts for the benefit of their minor children. In cases where such assets do not exceed \$100,000 in an account, management of the assets will be considered as an additional factor in establishing the Client's overall fee.

It is further disclosed that the Advisor requires Clients to execute a limited trading authorization for investing and managing Client portfolios.

Clients will establish their brokerage/custodial accounts as prime brokerage accounts. Where a transaction is effected (e.g., a bond is purchased or sold) on a Client's behalf away from such prime broker, the prime broker will settle the trade and may charge a processing fee which is approximately \$25 per transaction. In executing such trades, the Advisor expects to buy or sell securities in sufficient size that such fee will not materially impact the return on the investment of the Client.

The Advisor has certain engagements wherein advice is provided to a relative or friend of a Client. For example, a Client might engage the professional services of the Advisor to provide financial advice to his or her grown children. In some cases, the children would pay a nominal fee or no fee, and all additional charges would be billed to the parent who is the Advisor's Client. In other cases, an adult child may retain the Advisor or supplement the Advisor's fee to provide financial advice to the parents of the adult child. In all of these cases, the Advisor views its duties and fiduciary responsibility as running to the person to whom advice is rendered. The Advisor does not report back on substantive matters to the individual paying the fees unless the Advisor has the express consent of the recipient of the advice.

Where a Client has made fee payments to KLS as described above and subsequently determines to terminate an advisory agreement prior to its annual expiration, the Advisor will prorate the annual fee taking into account both length of service and work performed and refund the unearned portion to the Client. Client fees are refundable in total during the period up to five days following the signing of the Agreement retaining the Advisor to provide services. The Advisor retention agreement is terminable at any time by the Client.

***Performance-Based Fees and Side-By-Side Management***

Form ADV Part 2A, Item 6

KLS does not charge performance-based fees. Please see Item 5.

### ***Types of Clients***

Form ADV Part 2A, Item 7

We provide services to several types of Clients:

- Individuals
- Pension and profit sharing plans
- Trusts, estates, or charitable organizations
- Corporations or business entities other than those listed above

The minimum dollar value of a Client's investment assets required to start a relationship with the Advisor is \$1,000,000, although the Advisor has discretion to accept client accounts of lesser amounts. The Advisor at its discretion will accept selected accounts of lesser amounts exclusively for investment management services. Such Clients will not be offered the same extensive financial planning services and wealth management described in Part 2A, Item 5.



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

Form ADV Part 2A, Item 8

### **Types of Investments:**

The Advisor does not generally invest in commodity transactions or future contracts on behalf of Clients. On occasion, where appropriate to address a Client's needs or where directed by a Client to do so, the Advisor will facilitate such an investment.

The Advisor will offer advice on all types of partnership investments when requested to do so by Clients, including real estate, private equity hedge funds, oil and gas, cable television, movies, leasing, operating business and other partnerships.

In addition to advice on equity securities as part of its financial management services, the Advisor also offers advice on fixed income securities including fixed income securities managed by both fixed income money managers and public mutual funds. In this connection, the Advisor has entered into Agreements (the "Agreements") with Morgan Stanley Wealth Management (MSWM), formerly Morgan Stanley Smith Barney (MSSB) whereby the Advisor's Clients are permitted to participate in a program with MSWM which offers fixed income separately managed accounts at discounted fees relative to MSWM's normal fee schedule. The above-referenced Agreements provide for fees paid to MSWM of 0.10% of Client's assets under management (for a total of 0.30% of assets under management). The Advisor receives no compensation of any kind from MSWM, the wrap manager, or any other individual or entity in connection with the Agreements.

Mutual funds invested in by the Advisor provide for certain expenses and fees payable to the manager of the mutual fund, and may result in a transaction fee or other fee charged to the investor by the fund or the custodian.

### **Analysis:**

The Advisor's methods of analysis are fundamental. The Advisor's main sources of information include: financial newspapers and magazines, research materials prepared by others, corporate rating services, annual reports, prospectuses, and filing with the SEC.

### **Investment Strategies:**

Investment strategies employed for each Client focus on the rationalization of risk and reward among classes of investment assets and in relation to a Client's personal circumstances.

### **Balancing the Interests of Multiple Client Accounts:**

The Advisor may manage numerous accounts with similar or identical investment objectives or may manage accounts with different objectives that may trade in the same securities. Despite such similarities, portfolio decisions relating to Clients' investments and the performance resulting from such decisions may differ from Client to Client.

### **Allocating Investment Opportunities:**

Because each Client portfolio is individually managed, the Advisor will not necessarily purchase or sell the same securities at the same time or in the same proportionate amounts for all eligible Clients, particularly if different Clients have materially different amounts of capital under management by the Advisor, different

objectives, or different amounts of investable cash available. Therefore, not all Clients will necessarily participate in the same investment opportunities or participate on the same basis.

**Risk of Loss:**

All investments in securities include a risk of loss of principal (invested amount) and any profits that have not been realized (the securities were not sold to “lock in” the profit). Stock and bond markets fluctuate substantially over time. Performance of any investment is not guaranteed. There is a risk of loss inherent in all investments. KLS cannot guarantee performance or that a loss will not be experienced. Investing in securities involves a risk of loss that each Client must be prepared to bear.

### ***Disciplinary Information***

Form ADV Part 2A, Item 9

KLS does not have any legal, financial or other disciplinary item to report. We are obligated to disclose any disciplinary event that would be material in evaluating KLS to initiate or continue a Client/Advisor relationship with us.

This statement applied to our firm and to every employee.

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

Form ADV Part 2A, Item 10

The principal business of the Advisor is Wealth Management. The Advisor provides financial and estate planning advice including specific investment advice, income tax planning and preparation services, and financial consulting services.

The Advisor estimates that 50% of its time is attributable to providing investment advisory and supervisory services. The remainder of the Advisor's time relates to other wealth management activities.

The Advisor may receive from certain broker-dealers or custodians, without cost, computer software and related systems support, which allow the Advisor to better monitor Client accounts maintained with them. In addition, the Advisor may receive the following benefits from such broker-dealers: receipt of duplicate Client confirmations and bundled duplicate statements; access to a trading desk that exclusively serves institutional brokerage group participants; access to block trading services which provide the ability to aggregate securities transaction and then allocate the appropriate shares to Client accounts; and/or access to an electronic communication network for Client order entry and account information. The Advisor currently has such an arrangement with custodians, as described in Item 12. Advisor's Clients are charged standard or negotiated fees or commissions in connection with transactions executed with custodial broker-dealers.

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

Form ADV Part 2A, Item 11

### **Code of Ethics:**

KLS has adopted a Code of Ethics and Insider Trading Procedures (the "Code"). The Code provides that each employee should place the interests of the Advisor's Clients ahead of their own. Each employee is required to conduct all personal securities transactions in a manner that is consistent with the Code and to avoid any actual or potential conflict of interest. No employee may misuse information about the Client accounts, abuse his or her position of trust and responsibility or take inappropriate advantage of his or her position. The Advisor has a policy concerning trading by personnel of the Advisor and its affiliates which the Advisor believes is reasonably designed to minimize potential conflicts of interest between the Advisor and its Clients. In furtherance of minimizing such potential conflicts of interest, the Advisor prohibits its officers, managers and employees from trading, either personally or on behalf of others, in securities while in possession of material non-public information regarding such securities or communicating material non-public information to others.

A copy of the Advisor's Code of Ethics is delivered to all clients with annual advisory agreement.

### **Initial and/or Limited or Private Offerings:**

The Advisor does not invest in individual company shares for its Clients unless directed to do so. The Advisor does not participate in initial, limited or private offerings. Personnel of the Advisor may not, directly or indirectly, purchase any publicly traded security without obtaining prior written approval in accordance with the Code.

### **Acceptance of Gifts:**

The Advisor prohibits the receipt by employees of gifts of any material value from any person that does business with or on behalf of the Advisor.

### **Transaction Reporting:**

To comply with the rules of the Securities and Exchange Commission, all access persons of the Advisor are required to maintain their own accounts or any accounts in which they have a direct or indirect beneficial interest at designated custodians. Compliance personnel review all transactions in such accounts. Monthly transaction reports capture all transactions, including "covered securities." Covered securities include all securities except direct obligations of the United States government, a series thereof, a government sponsored entity, municipal bonds, money market funds and share of open-end investment companies registered under the Investment Company Act of 1940 (other than investment companies for which the Advisor acts as a sub-advisor or advisor). Positions and transactions are downloaded by the designated custodian to the Advisor daily. Finally, the Advisor requires access persons to certify annually that they have complied with the Advisor's Code.

### **Pre-Clearance Procedures:**

To minimize potential conflicts of interest, the Advisor has established pre-clearance procedures to identify any restriction or limits applicable to a proposed personal investment by its advisory personnel. Advisory personnel of the Advisor must pre-clear all transactions of publicly traded equity securities of covered securities in their accounts or accounts over which they exercise investment control or influence in advance of trade execution. The individual designated to pre-clear equity securities transactions must have his or her transactions pre-cleared by another person designated pursuant to the Code. If the transaction is approved, personnel of the Advisor may proceed with the approved trades within three days of the date clearance is given. Any trading required to be pre-cleared that has not gone through the approval process is a violation of the Advisor's policies and procedures, and may be subject to corrective action.

### **Conflicts of Interest:**

The advisory personnel of the Advisor expect to acquire for their own accounts certain securities that the

Advisor also recommends to its Clients. Such purchases generally include securities that are publicly traded and widely distributed such as Treasury securities, municipal bonds, and mutual fund shares and obligations of commercial banks and savings and loan associations such as Certificates of Deposit. The Advisor does not believe a material conflict of interest exists in such situations.

**Insider Trading Policy:**

It is further noted that the Advisor has policies and procedures in place that are reasonably designed to ensure compliance with the Insider Trading and Securities Fraud Enforcement Act of 1988. Specifically, the Advisor has adopted a firm-wide policy statement that outlines insider trading compliance by the Advisor and its associated persons or other employees. This statement has been distributed to all associated persons and other employees of the Advisor and has been signed by each such person. A copy of such firm-wide policy is left with such person and the original is maintained in a master file. Further, the Advisor has adopted a written supervisory procedures statement highlighting the steps that shall be taken to implement the firm-wide policy. These materials are also distributed to all associated persons and other employees of the Advisor, are signed, and filed with the insider trading compliance materials. There are provisions adopted for (1) restricting access to files, (2) restricting and/or monitoring trading on those securities of which the Advisor's employees may have non-public information, (3) requiring all of the Advisor's employees to conduct their trading through a specified broker or reporting all transactions promptly to the Advisor, and (4) monitoring the securities trading of the firm and its employees and associated persons.

## **Brokerage Practices**

Form ADV Part 2A, Item 12

### **Recommended Brokerage:**

Client assets, as provided for by the individual Client custodial agreements, are generally custodied with Fidelity Investments, Morgan Stanley Wealth Management (MSWM), formerly Morgan Stanley Smith Barney (MSSB), Charles Schwab and Merrill Lynch (the "custodians"). The Advisor receives from custodians, without cost, computer software and related systems support, which allows the Advisor to better monitor the Client accounts maintained with such custodians. In addition, the Advisor may receive the following benefits: receipt of duplicate Client confirmations and bundled duplicate statements; access to a trading desk that exclusively serves institutional brokerage group participants; access to block trading services that provide the ability to aggregate securities transactions and then allocate the appropriate shares to Client accounts, and/or access to an electronic communication network for Client order entry and account information.

Client is required to enter into a Prime Brokerage Services Agreement with the custodian. That agreement, however, permits the Advisor to trade away from the custodian in certain circumstances. The custodian's agreement generally imposes a fee for each transaction that is executed on a trade away basis.

Clients are provided with disclosure regarding this brokerage arrangement to make them aware that, because of this arrangement, there is the potential that the Client could pay higher net execution costs than he or she would have paid if another broker provided custody and execution services for the account. The Advisor shall, however, review from time to time the arrangements with the custodians against other possible arrangements in the marketplace to ensure that it is achieving best execution.

The Advisor will seek competitive rates, but it may not necessarily obtain the lowest possible commission rates for Client account transactions and need not solicit competitive bids.

The methods by which the Advisor fulfills its Best Execution obligations in connection with securities transactions for its Clients is as follows:

- With regard to mutual funds, mutual fund investments are purchased and sold at net asset value. All investors receive the same purchase price for fund units. Commissions and loads (if any) are typically waived by the funds the Advisor recommends to Clients, although competitive transaction fees may be charged.
- With regard to "wrap accounts" that are managed on behalf of Clients by another manager, the manager who is selecting the individual securities is responsible for monitoring Best Execution procedures. In addition, the custodian reviews this with the manager on a periodic basis. The Advisor, on a periodic basis, reviews performance dispersion among accounts managed by the wrap account manager.
- With regard to fixed income securities, the Advisor competitively bids bond purchase and sale transactions with more than one broker. Bond pricing is also compared to publicly available data from newspapers and pricing services. This Best Execution review is an integral part of the process the Advisor uses to purchase and sell fixed income securities on behalf of Clients.
- The Advisor reviews its securities trading procedures regularly and compares pricing on transactions with available pricing and financial databases.
- With regard to purchase and sale of specific stocks, the Advisor will compare pricing reflected in databases and published materials. These trades are relatively infrequent due to the nature of the services the Advisor provides to its Clients.
- Commission rates for trades are negotiated with custodians.

The Advisor will consider the following factors, among others, when placing a trade for a Client with a particular broker-dealer

- Quality of overall execution services provided by the broker-dealer;
- Promptness of execution;
- Creditworthiness and business reputation of the broker-dealer;
- Promptness and accuracy of oral, hard copy or electronic reports of execution;
- Ability and willingness to correct trade errors;
- Promptness and accuracy of confirmation statements;
- Ability to access various market centers;
- The market where the security trades;
- Any expertise the broker-dealer may have in executing trades for the particular type of security;
- Commission charged by the broker-dealer;
- Historical commission rates of the broker-dealer;
- Reliability of the broker-dealer;
- Ability of the broker-dealer to use ECN's to gain liquidity, price improvement, lower commission rates and anonymity;
- Reputation of the broker-dealer;
- Execution and operational capabilities of the broker-dealer and its clearing firm;
- Financial condition of the broker-dealer.

**Use of Soft Dollars:**

The Advisor currently has no soft dollar arrangements and does not anticipate having any in the future.

**Cross Trades:**

The Advisor does not engage in cross trades between Client accounts.

**Balancing the Interests of Multiple Client Accounts:**

The Advisor may manage numerous accounts with similar or identical investment objectives or may manage accounts with different objectives that may trade in the same securities. Despite such similarities, portfolio decisions relating to Clients' investments and the performance resulting from such decisions may differ from Client to Client.

**Allocating Investment Opportunities:**

The Advisor will not necessarily purchase or sell the same securities at the same time or in the same proportionate amounts for all eligible Clients, particularly if different Clients have materially different amounts of capital under management by the Advisor or different amounts of investable cash available. Therefore, not all Clients will necessarily participate in the same investment opportunities or participate on the same basis.

The Advisor will allocate investment and trading opportunities among various Clients (including the sequence of placing orders if not "batched") in a manner believed by the Advisor to be fair and equitable to each Client over time. In making these allocations and in departing from a proportionate allocation based on the relative sizes of Client accounts, the Advisor will take into account the following factors:

- The Clients' investment objectives and strategies;
- The composition, size and characteristics of an account;
- The cash flows and amount of investment funds available to each Client;
- The amount already committed by each Client to a specific investment;
- Each Client's risk tolerance and the relative risk of the investment;
- The marketability of the security being considered.



**Trade Errors:**

Trades made in error by the Advisor are cancelled and rebilled to the Advisor's error account regardless of whether profit or loss is realized on the trade and correction.

**Batching Orders:**

Whenever possible, orders to purchase or sell the same security for multiple accounts are aggregated if the Advisor believes batching will result in more favorable execution. The Advisor shall not aggregate investment transactions for accounts unless the transaction is consistent with the terms of the applicable investment advisory agreement and each account's investment objectives, restrictions and policies.

## ***Review of Accounts***

Form ADV Part 2A, Item 13

An initial Financial Management Report, including advice on allocation of the Client's investable funds, is prepared by the Primary Account Manager (Director or Associate Director) and reviewed by a Managing Director and discussed with the Client. Subsequently, personal consultations as required are scheduled, at which time the Client's status is reviewed as appropriate. "Triggering factors" for reviews are changes in the Client's financial position, or events potentially requiring such a change, of which the Advisor is aware. The Primary Account Managers (Managing Directors and Directors) are responsible for day-to-day client and portfolio management consistent with the policies of the Advisor (KLS). Managing Directors periodically review client accounts and serve as a resource for the Primary Account Manager (Director or Associate Director) on technical and investment matters.

Accounts are regularly reviewed with regard to asset allocation and cash position by Analysts, Client Managers, Associate Directors/Directors, and Managing Directors.

A consolidated statement of supervised assets is delivered to Clients at least quarterly. In addition, Clients receive oral and written reports on their status at the time of the consultations described above. Consolidated statements are also available to Clients online daily. We recommend clients to compare these statements provided against the account statements they receive from their custodian.

### ***Client Referrals and Other Compensation***

Form ADV Part 2A, Item 14

The Advisor employs marketing personnel who are compensated for soliciting Clients. Any such arrangements will be in compliance with Rule 206(4)-3 under the Investment Advisers Act of 1940.

From time to time, KLS will employ the services of a telemarketing firm to stimulate interest in KLS and set up appointments or conference calls with interested parties for a set fee based on hours worked and not based on referrals generated. No investment advice is being provided.

### ***Custody***

Form ADV Part 2A, Item 15

The Advisor does not maintain custody of Client funds. Clients should receive at least quarterly statements from the broker dealer, bank or other qualified custodian that holds and maintains client's investment assets. We urge you to carefully review such statements and compare such official custodial records to the account statements or reports that we may provide to you. Our statements or reports may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

## ***Investment Discretion***

Form ADV Part 2A, Item 16

### **Best Execution:**

Factors considered by the Advisor in making a recommendation of a brokerage firm include the size and reputation of the firm, its capital position, its commission rates in comparison to other firms, and its reporting procedures on Client accounts. The Advisor will not accept custody of any Client funds or securities. For Clients who are affiliated with securities firms (for example, investment bankers), and required by their employers to maintain their investment account at the employer, the Advisor will be limited to trading such Client's account through the Client-designated broker. As such, limitations will exist with respect to competitive pricing of investments and execution costs.

Generally, in the absence of specific instructions to the contrary, the Advisor has complete trading discretion with respect to Client accounts without any limitations on its authority. This discretion includes the authority, without prior notice to the Client, to buy and sell securities (other than specific stock issues) for Client accounts and establish and effect securities transactions through accounts with broker-dealers selected by the Advisor. In certain cases, Clients may direct the Advisor to use one or more particular broker-dealers in managing their accounts. Advisor does not have discretion to withdraw funds or fees from Client accounts. All accounts are maintained with an independent custodian.

### ***Voting Client Securities***

Form ADV Part 2A, Item 17

KLS does not vote Client proxies. Therefore, Clients maintain exclusive responsibility for: (1) voting proxies, and (2) acting on corporate actions pertaining to the Client's investment assets. The Client shall instruct the Client's qualified custodian to forward to the Client copies of all proxies and shareholder communications relating to the Client's investment assets.

In most cases, the client will receive proxy materials directly from the account custodian.

### ***Financial Information***

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about our financial condition. We have no financial commitment that impairs our ability to meet contractual and fiduciary commitments to clients, and we have not been the subject of a bankruptcy proceeding.

We do not have custody of client funds or securities or require or solicit prepayment of more than \$1,200 in fees per client six months in advance.

