

## **Key Investment Services LLC**

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March 26, 2014

### **Part 2A Appendix 1 of Form ADV**

#### **NOTICES TO ADVISORY ACCOUNT CUSTOMERS**

You either signed or will sign the documents to establish a wrap account. This is an investment advisory account, with Key Investment Services LLC ("KIS"), by which you established a brokerage account at KIS that is carried by Pershing LLC ("Pershing") which acts as clearing broker and custodian for the account. Pershing acts as a qualified custodian for all KIS advisory account assets. It holds and maintains all funds and securities in your advisory account. It will send you periodic statements showing your holdings and any activity in your account. Please read your statements carefully when you receive them.

You can contact Pershing at the following address:

Pershing LLC  
One Pershing Plaza  
Jersey City, New Jersey 07399

**This wrap fee program brochure provides information about the qualification and business practices of KIS. If you have any questions about the contents of this brochure, please contact us at 1-888-547-2968. 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 KIS also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). KIS is a registered investment adviser with the SEC. Registration does not imply a certain level of skill or training.**

Investment products are offered through KIS, member FINRA/SIPC and carried by Pershing LLC, member FINRA/NYSE/SIPC. Insurance products are offered through KeyCorp Insurance Agency USA Inc. (KIA). KIS and KIA are affiliated with KeyBank National Association (KeyBank). KIS, KIA and KeyBank are separate entities, and when you buy or sell securities and insurance products you are doing business with KIS and/or KIA, and not KeyBank.

Investment and insurance products made available through KIS and KIA are:

<b>NOT FDIC INSURED • NOT BANK GUARANTEED • MAY LOSE VALUE • NOT A DEPOSIT • NOT INSURED BY ANY FEDERAL OR STATE GOVERNMENT AGENCY</b>
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## **Item 2: Summary of Material Changes**

The following material changes pertinent to the provision of Key Investment Services LLC's investment advisory services have occurred since the date of the annual update of its brochure in March, 2013.

Effective April 15, 2013, KIS offers Russell Model Strategies as part of its Program. Please see Item 4 for further details.

Effective December 16, 2013, KIS no longer offers the FDIC Variable Rate Deposit through its parent bank, KeyBank National Association, as a cash sweep option. As a result, KIS no longer has indirect custody of those funds. For those clients wishing to remain in a bank deposit cash sweep option, KIS makes available the Dreyfus Insured Deposits Program through Pershing. Please see Item 4 for further details.

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#### **Item 4: Services, Fees and Compensation**

Key Investment Services LLC (“KIS”) as “Wrap Program Sponsor” either sponsors or offers as part of its wrap fee programs (“Wrap Programs”) access to certain investment advisory products (“Advisory Products”) listed in this brochure for its clients. Advisory Products include investment advisory products proprietary to and administered by third-party service providers (“Product Sponsors”) which, among other things, allows KIS clients to access portfolio managers participating in such Advisory Product platforms for purposes of managing trading activity in a client’s wrap fee account. KIS has established an Investment Advisory Sub-Committee to its Product Due Diligence Committee to perform due diligence and monitoring of existing and potentially new Product Sponsors. KIS may refine its Advisory Product offerings and introduce new products as part of its continuous efforts to meet the investment needs of its clients, respond to changing markets and take advantage of recent technological or other innovations. In addition, from time to time acquisitions or new business relationships may contribute new product offerings.

Current Advisory Products offered by KIS through its Wrap Programs include:

**(1) Lockwood Investment Strategies (“LIS”) –** Lockwood Advisors, Inc. (“Lockwood”) is a federally registered investment advisory firm that specializes in processing and administering individually managed accounts and in providing managed account services and technologies to, among others, sponsors of wrap account programs. Lockwood is the Money Manager in LIS, and acts as a third-party service provider to KIS. LIS is a discretionary, multi-discipline managed account product housed in a single portfolio with five core models in which a client may invest depending on how the client scores on a risk profile questionnaire. The five (5) core models span the risk/return spectrum from current income model to growth model within the context of a diversified portfolio. Clients may also choose from four (4) additional models which include exposure to non-traditional asset classes, as described more fully in Lockwood’s Form ADV Part 2A. Lockwood, serving as a discretionary portfolio manager, determines asset allocation and selects both sub-managers and specific investment vehicles for each investment style based on its proprietary modeling strategies, as well as its macroeconomic outlook and investment discipline. KIS does not exercise investment discretion in the selection of the asset allocation or the specific sub-managers and underlying investment vehicles and strategies used in a client’s account. KIS Financial Advisors (“FAs”), utilizing Lockwood tools, provide clients with non-binding recommendations regarding such asset allocation and underlying investment vehicles and strategies to meet clients’ investment objectives, but clients direct the overall investment strategy and profile changes to be made in their accounts. Clients are ultimately responsible for the selection of the appropriate asset allocation model and strategy. However, Lockwood has full discretionary authority to invest, reinvest and otherwise deal with assets in LIS client accounts in its discretion within the model selected by the client. Lockwood may, when it deems appropriate and without prior consultation with clients or KIS, buy, sell, exchange, convert and otherwise trade in any stocks, bonds, mutual funds, alternative investments and other securities, and may at its discretion replace sub-managers and underlying investment vehicles if, for example, Lockwood deems such sub-manager or investment vehicle to be underperforming. Lockwood also provides overlay management services for the client’s LIS account and implements trade orders based on the directions of the investment strategies contained in LIS portfolios.

KIS’s current program fee schedule for LIS is as follows:

<u>Portfolio Value</u>	<u>Maximum Annual Fee</u>	
	<u>≥50% Equities</u>	<u>≥50% Fixed Income</u>
\$250,000 – \$500,000	3.00%	2.50%
\$500,001 – \$1,000,000	2.50%	2.00%
\$1,000,001- \$2,500,000	2.00%	1.50%
\$2,500,001 – over	1.50%	1.00%

Fees for LIS are negotiable. Fees for LIS do not cover all costs or charges arising from these accounts. For example, these program fees do not cover: (i) dealer markups or markdowns; (ii) costs associated with the purchase and sale of mutual funds; (iii) charges imposed by law; (iv) costs relating to trading in foreign securities; (v) internal charges and fees that may be imposed by any collective investment vehicles such as closed-end funds, index shares, UITs, ETFs, or real estate investment trusts; (vi) other specialized charges such as transfer taxes, exchange and SEC transaction fees; and (vii) any brokerage commissions or other charges imposed by broker dealers or entities other than the Pershing and certain liquidation fees; (viii) certain hard dollar fees associated with foreign exchange, taxes and other related fees in connection with American Depository Receipts. If there is insufficient cash in a LIS client account to pay fees, costs or other charges, Lockwood may sell account assets to pay them. Clients should carefully review Lockwood's Form ADV Part 2A and their investment management account investment selection forms and terms and conditions for further information on such costs or charges. Please also read carefully Lockwood's Form ADV Part 2A to learn what portion of the fees Lockwood and the sub-managers receive.

**(2) Lockwood AdvisorFlex Portfolios ("AFP")** – Lockwood is the Program Sponsor of AFP. Clients should read carefully Lockwood's Form ADV Part 2A Appendix 1 for required disclosures concerning that product in addition to those concerning KIS and its affiliates which are contained in this disclosure. AFP is a series of model portfolios diversified at the asset class level and among different security types in which a client may invest depending on how the client scores on a risk profile questionnaire. Clients may choose from sixteen (16) models spanning the risk/return spectrum from income to capital appreciation. Lockwood, serving as a third-party service provider, Product Sponsor and money manager, reviews and approves the allocations and investment selections to be included in the AFP portfolios. In addition, Lockwood periodically reviews the asset allocation strategies and investment selections with the AFP model portfolios seeking to ensure that the portfolios continue to adhere to their respective original investment objectives. KIS does not exercise investment discretion in the selection of the asset allocation or the universe of specific underlying investment vehicles and strategies used in a client's account. Within each AFP model, Lockwood identifies several investment vehicle options from which clients may choose. KIS FAs, utilizing Lockwood tools, provide clients with non-binding recommendations on a non-discretionary basis regarding such asset allocation and underlying investment vehicles and strategies to meet clients' investment objectives, but clients direct the overall investment strategy and profile changes to be made in their accounts. Clients are ultimately responsible for the selection of the appropriate asset allocation model and strategy. However, Lockwood has discretionary authority to invest, reinvest and otherwise deal with assets in AFP client accounts in its discretion within the model selected by the client, subject to the client's decision to select alternate investment vehicle selections. Lockwood may, when it deems appropriate and without prior consultation with clients or KIS, buy, sell, exchange, convert and otherwise trade in any stocks, bonds, mutual funds, alternative investments and other securities, and may at its discretion replace underlying mutual funds and ETFs in a model if, for example, Lockwood deems such mutual fund or ETF to be underperforming. Lockwood also provides overlay management services for the client's AFP account and implements trade orders based on the directions of the investment strategies contained in AFP portfolios.

KIS's current program fee schedule for AFP is as follows:

<u>Portfolio Value</u>	<u>Maximum Annual Fee</u>
\$25,000 - \$500,000	2.00%
\$500,001 - \$1,000,000	1.50%
\$1,000,001 - over	1.00%

Fees for AFP are negotiable. Fees for AFP do not cover all costs or charges arising from these accounts. For example, these program fees do not cover: (i) dealer markups or markdowns; (ii) costs associated with the purchase and sale of mutual funds; (iii) charges imposed by law; (iv) costs relating to trading in foreign securities; (v) internal charges and fees that may be imposed by any collective investment

vehicles such as closed-end funds, index shares, UITs, ETFs, or real estate investment trusts; (vi) other specialized charges such as transfer taxes, exchange and SEC transaction fees; and (vii) any brokerage commissions or other charges imposed by broker dealers or entities other than the Pershing and certain liquidation fees; (viii) certain hard dollar fees associated with foreign exchange, taxes and other related fees in connection with American Depository Receipts. If there is insufficient cash in an AFP client account to pay fees, costs or other charges, Lockwood may sell account assets to pay them. Clients should carefully review Lockwood's Form ADV Part 2A Appendix 1 and their investment management account investment selection forms and terms and conditions for further information on such costs or charges. Please also read carefully Lockwood's Form ADV Part 2A Appendix 1 to learn what portion of the fees Lockwood receives.

**(3) Key Managed Account ("KMA")** – Envestnet Asset Management, Inc. ("Envestnet") is a federally-registered investment advisory firm that provides an extensive range of investment advisory services for advisors such as KIS and their clients, including the KMA. In the KMA program, Envestnet designs model mutual fund/ETF portfolios in which a client may invest depending on how the client scores on a risk profile questionnaire. The fourteen (14) currently available models span the risk/return spectrum from a current income model to a growth model within the overall context of a diversified portfolio. KIS does not exercise investment discretion in the selection of the asset allocation or the specific underlying investment vehicles and strategies used in a client's account. KIS FAs, utilizing Envestnet tools, provide clients with non-binding recommendations regarding such asset allocation and underlying investment vehicles and strategies to meet clients' investment objectives, but clients direct the overall investment strategy and profile changes to be made in their accounts. Clients are ultimately responsible for the selection of the appropriate asset allocation model and strategy. However, Envestnet has full discretionary authority to invest, reinvest and otherwise deal with assets in KMA client accounts in its discretion within the model selected by the client. Envestnet may, when it deems appropriate and without prior consultation with clients or KIS, buy, sell, exchange, convert and otherwise trade in any stocks, bonds, mutual funds, alternative investments and other securities, and may at its discretion replace underlying mutual funds and ETFs in a model if, for example, Envestnet deems such mutual fund or ETF to be underperforming. Envestnet also provides overlay management services for the client's KMA account and implements trade orders based on the directions of the investment strategies contained in KMA portfolios.

KIS's current program fee schedule for KMA is as follows:

<u>Portfolio Value</u>	<u>Maximum Annual Fee</u>
\$25,000 - \$500,000	2.00%
\$500,001 - \$1,000,000	1.50%
\$1,000,001 - over	1.00%

Fees for KMA are negotiable. Fees for KMA do not cover all costs or charges arising from these accounts. For example, these program fees do not cover (i) certain charges associated with securities transactions in clients' accounts such as dealer markups, markdowns or spreads charged on transactions in over-the-counter securities, costs relating to trading in certain foreign currencies, internal charges and fees that may be imposed by any collective investment vehicle such as a mutual fund or ETF, contingent deferred sales charges that may be imposed upon the liquidation of in-kind assets transferred into the program; (ii) certain custodial charges that may be charged by a custodian such as a minimum account fee or charges for ACAT transfers, electronic and wire transfer charges, optional services elected by clients, transaction-based ticket charges that may be assessed by custodian for the purchase of certain mutual funds, and certain non-brokerage related charges such as IRA trustee fees or IRA termination fees; and (iii) possible mutual fund redemption fees. If there is insufficient cash in a KMA client account to pay fees, costs or other charges, Envestnet may sell account assets to pay them. Clients should carefully review Envestnet's Form ADV Part 2A and their investment management account investment selection forms and terms and conditions for further information on such costs or charges.

**(4) Russell Model Strategies Program (“Model Strategies”).** KIS offers the Model Strategies on a nondiscretionary basis to its clients through its relationship with Envestnet. Russell Investment Management Company (“RIMCo”) is a SEC-registered investment adviser that advises the Russell Investment Company family of mutual funds (“Russell Funds”). Model Strategies are based on strategic asset allocation models (“Models”) developed by RIMCo as a third party model strategist, and are comprised of Russell Funds selected by RIMCo for a particular Model. RIMCo makes the Models available to Envestnet for Envestnet’s use in managing individual client accounts. Envestnet provides overlay management for clients’ Model Strategies accounts and implements trade orders based on asset allocation changes communicated to Envestnet by RIMCo.

The Model Strategies provide five (5) core Models and five (5) tax-managed Models which span the risk/return spectrum from a current income Model to a growth Model within the overall context of a diversified portfolio. The Models vary in their exposure to different asset classes (such as equities, fixed income, real assets and alternative investments), as well as different styles (such as defensive, dynamic, growth, core, and value), paired together to achieve diversification that seeks to meet a variety of investment objectives.

Clients may invest in these Models depending on their risk profile which is obtained when the client completes the Envestnet-provided risk profile questionnaire. The output from the questionnaire is a risk score, which assists the KIS FA in advising the client on a non-discretionary basis which Model best suits the client’s risk tolerance. Clients select a Model that is appropriate for the investment circumstances clients set forth in the risk profile questionnaire. Clients make the final determination as to which overall investment strategy, Model, and profile changes will be made in their accounts. The FA may provide the client with an investment proposal or strategy sheet that identifies the specific portfolio Model recommended to the client and details the underlying Russell Fund investments, as well as the overall asset and style allocation of the Model. The client is ultimately responsible for the selection of the appropriate asset allocation Model.

Neither KIS nor Envestnet exercise investment discretion in the selection of the Model or the specific underlying investment vehicles and strategies comprising the Model.

RIMCo does not exercise investment discretion with respect to the management of individual client accounts. Rather, RIMCo constructs the Models, determines the specific Russell Funds that comprise the Models, and from time-to-time, and without notice or approval from clients or KIS, advises Envestnet regarding adjustments to the Models’ asset allocations and/or underlying Russell Funds.

Envestnet retains discretion with respect to individual client accounts over the implementation of asset allocation changes in the Models, and may implement asset allocation changes differently with respect to individual client accounts than the asset allocation changes advised by RIMCo to Envestnet. Other services offered in connection with the Model Strategies program include, but are not limited to: periodic rebalancing of the client's portfolio by Envestnet to maintain the desired asset allocation; the provision of monthly custodial account statements by Pershing; and, the provision of quarterly performance reporting by Envestnet.

KIS’s current program fee for Model Strategies is as follows:

<u>Portfolio Value</u>	<u>Maximum Annual Fee</u>
\$25,000 - \$500,000	1.80%
\$500,000 - \$1,000,000	1.30%
\$1,000,000 - over	1.00%

As part of the program fee, KIS will pay from its portion of the program fee to Envestnet a Model Provider Fee (for access to the Model selected by client) as follows:

<u>Portfolio Value</u>	<u>Model Provider Fee</u>
\$25,000 - \$49,999	\$100*
\$50,000 - \$250,000	0.20%
\$250,001 - \$500,000	0.19%
\$500,001 - \$1,000,000	0.17%
\$1,000,001 - \$2,000,000	0.15%
\$2,000,001 – over	0.13%

\* Minimum fee effective October 1, 2013.

Fees for Model Strategies are negotiable. Fees for Model Strategies do not cover all costs or charges arising from these accounts. For example, these program fees do not cover (i) certain charges associated with securities transactions in clients' accounts such as dealer markups, markdowns or spreads charged on transactions in over-the-counter securities, costs relating to trading in certain foreign currencies, internal charges and fees that may be imposed by any collective investment vehicle such as a mutual fund or ETF, contingent deferred sales charges that may be imposed upon the liquidation of in-kind assets transferred into the program; (ii) certain custodial charges that may be charged by a custodian such as a minimum account fee or charges for ACATS transfers, electronic and wire transfer charges, optional services elected by clients, transaction-based ticket charges that may be assessed by custodian for the purchase of certain mutual funds, and certain non-brokerage related charges such as IRA trustee fees or IRA termination fees; and (iii) possible mutual fund redemption fees. If there is insufficient cash in a Model Strategies client account to pay fees, costs or other charges, Envestnet may sell account assets to pay them. Clients should carefully review Envestnet's Form ADV Part 2A and their investment management account investment selection forms and terms and conditions for further information on such costs or charges.

Note: RIMCo does not receive any part of the Model Strategies program fee. RIMCo does separately receive compensation in the form of advisory fees paid to it by the Russell Funds which comprise the particular Model portfolios in which clients may be invested, in connection with RIMCo's management of the Russell Funds. Such compensation is based on a percentage of the assets under RIMCo's management with respect to such Russell Funds, which will include client account assets invested in such Russell Funds. For further information regarding compensation RIMCo may receive from Russell Funds comprising a particular Model Strategies Model selected by a client, please see the prospectuses for those Russell Funds.

### KIS Program Services

For potential Wrap Program clients, KIS assists clients in the formulation of their investment objectives, and advises clients regarding the suitability of KIS's Wrap Programs for their investment needs, whether a managed account is a suitable investment vehicle for the client, and whether particular portfolio management options are suitable for the client in light of the client's risk tolerance and investment objectives.

For all Advisory Products, KIS through a KIS FA will consult with the client and complete, with the client's assistance, a client profile and investment information document to determine the client's financial circumstances, investment objectives and reasonable restrictions on management of the wrap account, if any. Based upon the consultation and information provided, KIS will assist the client in selecting investment options from investment programs. Clients open wrap accounts with KIS and retain KIS to assist the client in allocating the client's assets and in monitoring and/or selecting one or more investment options and to provide trade execution, reporting and custodial services for the account. For additional information regarding Review of Accounts, please see Item 9(4).



For all Advisory Products currently offered, KIS introduces the account to Pershing LLC (“Pershing”), which will act as custodian for the account. Services offered by Pershing as custodian of the account will include all custodial functions customarily performed with respect to such accounts including, but not limited to: back office support, execution of securities transactions (when appropriate), crediting of interest and dividends and periodic reporting, which reports Pershing will send directly to the client.

A client who participates in a wrap fee arrangement should consider that, depending on the level of the wrap fee charged, the amount of portfolio activity in the client’s account, the value of the custodial and other services which are provided under the arrangement, and other factors, the wrap fee may or may not exceed the aggregate cost of such services if they were to be purchased separately. Because the wrap fee may be greater than would have been the case if the client paid separately for investment advice and brokerage and other services or participated in another program, FAs may have an incentive to recommend the wrap fee programs over alternative programs or over the purchase of such services separately, including with respect to mutual funds, collective investment vehicles, or other assets that may comprise a LIS, AFP, KMA or Model Strategies account and which may be purchased on an individual basis through KIS’ standard brokerage services.

Investments in mutual funds and ETFs are subject to various other fees that are paid by those portfolios, but ultimately are borne by shareholders through lower returns than would likely be experienced without those fees. These expenses may include investment advisory, administrative, distribution, transfer agent, custodial, legal, audit, and other customary fees related to investment in mutual funds. In addition, securities purchased by a portfolio manager may require that spreads be paid to market makers as markups or markdowns of the price of the security purchased. For further information, please see Item 4 Current Advisory Product descriptions above and the prospectus for the applicable mutual fund or ETF.

KIS is generally compensated on the basis of fees calculated as a percentage of assets under management, and may also on occasion be compensated through fixed-fee arrangements. Fees that are calculated as a percentage of assets under management are generally charged quarterly in advance, based upon the average daily balance of assets under management, including money market and other cash equivalent assets, during the prior quarter. All fees are deducted from the account unless otherwise agreed.

KIS or the client may generally terminate client agreements at any time by written notice, in some cases with thirty (30) days’ prior written notice. If a client terminates the agreement within five (5) business days after it has been signed by the client and accepted by KIS, the client generally will receive a full refund of all fees and expenses. If an agreement is terminated at any time after five (5) business days of its signing and during a quarter, the client will be entitled to a pro rata refund of any prepaid fees, in each case based upon the number of days remaining in the quarter after the date upon which notice of termination is received.

For all Advisory Products, clients are charged a wrap fee every calendar quarter in advance for services that generally include advisory, transactional and custodial services. The maximum wrap fee that clients may be charged is set forth in the tables above under the applicable Advisory Product. The wrap fee actually paid by a particular client is set forth in the Client Agreement. With respect to Lockwood advisory products, KIS shares a portion of the wrap fee with Lockwood, Pershing, and any applicable sub-managers, for their respective services. With respect to Envestnet advisory products, KIS shares a portion of the wrap fee with Envestnet. No wrap fee adjustments are made for any billing period with respect to partial withdrawals within a billing period. Wrap fees do not cover all costs or charges arising from these accounts. For further information, please see current Advisory Product descriptions in Item 4 above and the respective Product Sponsor’s applicable Form ADV Part 2 brochure.

KIS will share its portion of the wrap fee it receives with the KIS FA for the client’s account (“Fee Split”). KIS will provide a greater portion of the Fee Split to its personnel in connection with new accounts opened in the first year than in subsequent years. The payment by KIS of additional

compensation to FA will not affect the amount of the Fee charged to client's account. The amount of such compensation may be greater than what the KIS FA would receive if the client purchased separately KIS's brokerage or other services as such services. Such personnel may, therefore, have a financial incentive to recommend these products over other products, programs or services.

Fees for individual customers may be negotiated in KIS's sole and absolute discretion. In KIS's sole and absolute discretion, certain related accounts may be aggregated for purposes of applying the applicable blended fee schedule as if the accounts were one account. Account minimums may also be waived in KIS's sole and absolute discretion. KIS in its sole and absolute discretion may also charge different fees than the fees summarized in this brochure, such as a flat fee rate such that assets will be charged the same rate regardless of the amount of assets in the account, based upon matters that may be deemed relevant by KIS such as additional assets under management in different programs or other business relationships with the client. This could cause customers who do not receive such treatment to pay more for the similar services.

KIS may in its sole discretion change the actual fee charged upon thirty days' written notice to the client. Clients may accept the change or close the account.

Because KIS's advisory fees (and Lockwood's and Envestnet's portion of the fees) are based on assets under management, KIS, Lockwood and Envestnet have a conflict of interest in valuing securities held in client accounts, since a higher valuation produces higher advisory fees. In order to ensure that client assets are accurately valued, for purposes of calculating fees where Pershing acts as the client's custodian, securities listed on any national securities exchange shall be valued, as of the valuation date, at the closing price on the principal exchange on which they are traded. Any other securities or investments shall be valued in a manner determined in good faith to reflect fair market value. Any such valuation should not be considered a guarantee of any kind whatsoever with respect to the value of the assets. Pershing in its sole discretion may use the services of an independent evaluator, as well as other independent sources with respect to the computation of market value of securities. The data contained in those reports has not been verified by Pershing or KIS.

A client may select that uninvested cash funds in their account awaiting permanent investment may be swept into the Dreyfus Insured Deposit Program (the "Program") offered through Pershing. Pershing operates the Program which, if the client chooses to participate, will sweep client's excess cash balances in their brokerage account at Pershing into interest-bearing bank deposit accounts ("Deposit Accounts") at various depository institutions ("Program Banks") and sweeps a client's cash from the various Program Banks to cover purchases of securities and other debits in the clients brokerage account carried at Pershing. The client receives interest on balances held on deposit at the various Program Banks. Interest rates may fluctuate and are based on the interest rates determined and paid by the respective Program Banks in which a client's balances are invested. A client may receive a lower rate of return on balances invested through the Program than on other investment or cash sweep alternatives. A client will not have a direct access to the funds deposited with the Program Banks, but a client may access his or her funds through their account by contacting their FA to process such a request through Pershing. A client's brokerage statement will list the names of the Program Banks holding the client's balances, as well as how much is on deposit with each respective Program Bank. Pershing or its affiliated companies (Promontory InterFinancial Network ("Promontory") and Dreyfus Cash Investment Services, a division of MBSC Securities Corporation ("Dreyfus")) who provide services to the Program may change Program Banks participating in the program and their priority for receiving deposits from time to time. Pershing, Promontory and Dreyfus earn fees (which may or may not be account-based) on the amount of money in the Program, including a client's balances. Pershing or Dreyfus may be affiliated with Program Banks. KIS's affiliated banks are not at present Program Banks. For further information concerning the Program (including the eligibility of deposited funds for FDIC insurance of up to \$250,000 per insurable interest) please read the Dreyfus Insured Deposit Program Disclosure Statement and Terms and Conditions for Single Rate Program which is supplied at account opening or is available on request from a client's FA.

### Other Fees and Compensation Received by KIS from Third Parties

Certain mutual funds in which clients may invest distribute or may distribute payments to KIS and/or Pershing as clearing broker for KIS. KIS may therefore have a financial incentive to recommend these mutual funds over other mutual funds that may be included in the asset allocation of a client's wrap account. Such payments may be made pursuant to a Rule 12b-1 distribution plan or other arrangements as compensation to help defray the costs of services offered by KIS and made available to fund families such as for distribution, shareholder services, record keeping, administrative services, and the costs of KIS FA training and continuing education and sales events. Such payments may be distributed from the fund's total assets. Individual KIS FAs do not receive any portion of these payments. This includes payments from mutual funds for which neither KIS nor any of its affiliates or subsidiaries ("Key") serves as an investment adviser, fund manager, or distributor ("Non-Proprietary Mutual Funds"). Key may receive compensation from the Non-Proprietary Mutual Funds and/or the Non-Proprietary Mutual Fund companies for providing services in connection with investments by its customers. For example, Key has entered into arrangements with Non-Proprietary Mutual Fund companies under which the Non-Proprietary Mutual Funds and/or the Non-Proprietary Mutual Fund companies will compensate Key for the Non-Proprietary mutual fund services. These fees for services shall be in addition to, and will not reduce, Key's compensation for other services to clients' accounts. Such fees for services will not be paid directly by clients' accounts, but will be paid to Key by the Non-Proprietary Mutual Funds company or the Non-Proprietary Mutual Fund itself. The 12b-1 fee and other arrangements will be disclosed upon Client's request and are typically available in the applicable fund's prospectus. KIS will credit or cause to be credited any 12b-1 fees that may be received from a mutual fund in connection with a client's wrap account back to the client's wrap account. KIS will retain any other fee and that fee is in addition to the Advisory Product Fees discussed herein. For further information clients should carefully review their KIS Standard Advisory Contract and Client Agreement and the prospectus for the applicable mutual fund.

Pershing has entered into agreements with certain mutual fund companies that pay Pershing for performing certain services for the mutual fund. Pursuant to these agreements, Pershing receives fees for operational services from mutual funds in the form of networking or omnibus processing fees. The reimbursements are remitted to Pershing for its work on behalf of the funds. This work may include, but is not limited to, subaccounting services, dividend calculation and posting, accounting, reconciliation, client confirmation and statement preparation and mailing and tax statement preparation and mailing. These reimbursements are based either on (a) a flat fee ranging from \$10 to \$20 per holding or (b) a percentage of assets that can range from 0 to 15 basis points for domestic funds and 0 to 30 basis points for offshore funds. Mutual funds that are available in Pershing's FundVest no-transaction fee mutual fund program may pay Pershing servicing fees in exchange for being offered in Pershing's FundVest Program ("FundVest Program"). These payments are based on a percentage of assets and can range from 7 to 40 basis points. KIS may receive certain asset based revenue sharing fees from Pershing if assets under management in mutual funds in the FundVest Program from KIS's clients exceed \$10,000,000. Such payment will be at the rate of 0.0040 multiplied by assets under management in funds participating in the FundVest Program. While KIS does not have discretion to invest in such funds, the additional compensation may give KIS a financial incentive to recommend funds participating in the FundVest Program over other funds.

### **Item 5: Account Requirements and Types of Clients**

The following are the minimum investment dollars required to open and maintain an account:

<u>Account Type</u>	<u>Size</u>
Lockwood Investment Strategies	\$250,000
Lockwood Advisor Flex Portfolios	\$ 25,000

Key Managed Account	\$ 25,000
Russell Model Strategies	\$ 25,000

KIS provides Wrap Programs to individuals, trusts, estates, and small businesses. Please read carefully Lockwood's Form ADV Part 2A and Part 2A Appendix 1 for information about Lockwood's clients. Please read carefully Envestnet's Form ADV Part 2A for information about Envestnet's clients.

### **Item 6: Portfolio Manager Selection and Evaluation**

As described in Item 4, KIS is a Wrap Program Sponsor by which it provides access to certain investment advisory products including the Lockwood LIS and AFP Products, the KMA program offering uniform managed account model portfolios managed by Envestnet and the Model Strategies program.

With regard to the investment vehicles and sub-managers selected for the LIS and AFP products, Lockwood is the third party Money Manager of LIS and Program Sponsor of AFP that selects, reviews and replaces the investment vehicles and sub-managers for the LIS and AFP products. According to Lockwood's Form ADV Part 2A and Part 2A Appendix 1, The Bank of New York Mellon Corporation's ("BNY") Manager Research Center ("BYNMMRC") is the primary manager research provider to and provides manager and investment vehicle research to Lockwood. Lockwood is an indirect, wholly-owned subsidiary of BNY, and BYNMMRC provides manager research across BNY. Lockwood retains decision-making responsibility regarding managers and investment vehicles included in its programs and products. According to information in Lockwood's Form ADV Part 2A and Part 2A Appendix 1, Lockwood considers various sources of information and criteria in selecting and ongoing evaluation of investment vehicles and sub-managers for its wrap products and programs, which would include LIS and AFP. According to Lockwood's Form ADV Part 2A and Part 2A Appendix 1, with respect to portfolio managers and model managers Lockwood may consider some combination of the following:

- A preliminary screening process which may involve a variety of criteria such as assets under management, personnel, registration, disclosures, and regulatory history;
- If the preliminary screen is successful, the next phase of analysis may include a range of quantitative criteria relating to performance and portfolio review, and qualitative criteria relating to such items as the investment team, philosophy and process, capacity and structure; and
- Information regarding managers from the following types of sources: the manager's website, publicly available sources, regulator websites, commercially available databases and in person meetings.

The criteria employed for each manager may not be identical and instead may be based on the nature of the manager's portfolios and investment philosophy.

According to Lockwood's Form ADV Part 2A and Part 2A Appendix 1, with respect to mutual funds, Lockwood in its role as money manager uses a screening process to evaluate mutual funds. According to Lockwood's Form Part 2A and Part 2A Appendix 1, criteria employed in the screening process may vary depending on a variety of factors, but may include a range of criteria including analysis of:

- Particular investment style;
- Evaluation of the portfolio management team;
- Performance criteria; and
- Costs associated with the fund

According to Lockwood's Form ADV Part 2A and Part 2A Appendix 1, with respect to ETFs, Lockwood in its role as money manager uses a comparable screening process and may consider a range of factors including:

- Tracked index or benchmark;
- Performance;
- Comparables;
- Personnel; and
- Content of the particular ETF.

Clients should read carefully Lockwood's Form ADV Part 2A and Part 2A Appendix 1 for required disclosures concerning LIS and AFP, including with respect to Lockwood's investment vehicle and sub-manager selection and evaluation process and potential conflicts of interest created by Lockwood's use of the BYNMMRC.

KIS utilizes a monitoring program, which is administered by an Investment Advisory Sub-Committee to its Product Due Diligence Committee as set forth in Item 4, to evaluate its Wrap Product Sponsors. KIS utilizes various analysts, some of whom may be third party firms, to assist in the review of the analysis performed and supplied by Lockwood, including portfolio and investment manager "scorecards," with regard to its review of the LIS and AFP Advisory Products. The Investment Advisory Sub-Committee will review annually the performance of Lockwood as Money Manager of LIS and Program Sponsor of AFP. This review will consider a combination of factors based on aggregated or summary information to evaluate Lockwood's overall management and selection of investment vehicles and sub-managers within the LIS and AFP products, including details regarding performance consistency and performance relative to peers, among other factors.

With respect to Envestnet and the KMA program, KIS engaged Envestnet to create the 14 model portfolios into which a KMA client may invest. Envestnet as third party Product Sponsor selects, reviews and replaces mutual funds and ETFs comprising the model portfolios. According to Envestnet's Form ADV Part 2A, Envestnet utilizes a proprietary research methodology and considers various sources of information and criteria in selecting and reviewing participating mutual funds and ETFs, which may include some combination of the following:

With respect to mutual funds, Envestnet may consider factors such as:

- Consistent active value – portfolios that have consistently beaten their benchmark over time;
- Effective and consistent risk control – portfolios that have consistently tracked their respective benchmark over time;
- Efficient risk-return profile – portfolios that have generated meaningful active returns relative to the risk taken;
- Holdings-based analysis using a factor model to calculate performance attribution;
- Finding statistically significant alpha scores using a custom Returns-Based Style Analysis process and advanced statistical techniques (based on Monte Carlo simulation) to calculate confidence intervals for the manager's alpha.

With respect to ETFs, Envestnet generally follows a screening process similar to that described with respect to mutual funds, and may also consider such factors as:

- Identification of market segment for desired exposure;
- Evaluation of index providers that provide applicable market coverage relative to the index used internally for capital markets assumptions;

- Further evaluation of index methodologies to ensure proper exposure and a thorough understanding of the ETF;
- Screen of Morningstar for ETFs that track the desired index;
- Liquidity;
- Tracking error;
- Premium and discount spreads;
- Costs;
- Track record;
- Manager experience;
- Efficiency of creation and redemption process;
- Index expertise;
- Management style (replication vs. optimization);
- Tax liability approach.

For additional information please see Envestnet's Form ADV Part 2A.

In addition to the initial selection and ongoing review of mutual funds and exchange traded funds by Envestnet, KIS' Product Due Diligence Committee, through KIS' Investment Advisory Sub-Committee, also reviews and monitors Envestnet as a third party Product Sponsor with respect to the KMA program in the same manner as described above in Item 4 and with respect to Lockwood.

With respect to Envestnet and the Model Strategies program, KIS through Envestnet engaged RIMCo to create the 10 Models into which a Model Strategies investor may invest. RIMCo as third party Product Sponsor selects, reviews and replaces Russell Fund mutual funds comprising the Models. Envestnet as overlay manager will review and replace mutual funds comprising the Models as directed by RIMCo. Envestnet does not conduct investment due diligence on the Models or RIMCo, and Envestnet is not responsible for the selection of the underlying investment vehicles in the Models. Envestnet has represented and warranted to KIS that Envestnet has verified RIMCo's status as a registered investment advisor prior to making Model Strategies available, including review of RIMCo's Form ADV Part 1 and 2 filings, and Envestnet requires RIMCo to complete a compliance due diligence questionnaire on an annual basis. KIS through its Investment Advisory Sub-Committee of its Product Due Diligence Committee reviewed the Models for general suitability for its clients and will review and monitor RIMCo, the Models comprising its Model Strategies Program and Envestnet for their performance in the same manner as described in Item 4 and with respect to Lockwood and Envestnet.

For additional information please see Envestnet's and RIMCo's respective Form ADV Part 2A.

The Investment Advisory Sub-Committee has also implemented a process for the initial selection and ongoing monitoring of product sponsors to its Wrap Programs, although no new sponsors are currently contemplated at this time.

In addition, KIS's monitoring program for its Wrap Program also provides that its FAs meet regularly, no less than annually and more frequently as circumstances permit, with clients to review performance of their accounts, conduct a suitability analysis of investments, verify and confirm risk tolerance with the client, address diversification and risk issues attendant to certain investments, make any necessary adjustments to the account based on the changes to the client's financial situation, and evaluate with clients whether portfolio managers remain suitable for the client or should be adjusted. For additional information regarding Review of Accounts, please see Item 9(4).

Lockwood, Dreyfus and Promontory are affiliated with Pershing. This could result in conflicts of interest where one firm hires an affiliate as a portfolio manager or other service provider. For further information please read carefully Lockwood's Form ADV Part 2A and Part 2A Appendix 1 and the Dreyfus Insured

Deposit Program Disclosure Statement and Terms and Conditions for Single Rate Program, either of which is supplied at account opening or is available on request from a client's FA. Lockwood, Promontory, Dreyfus and Pershing are not affiliated with KIS.

Envestnet also has affiliated companies, although Envestnet does not contemplate using any service providers to carry out its duties under the KMA program. Should Envestnet determine to use an affiliated company for the provision of services under the KMA, this could result in conflicts of interest such as where Envestnet hires an affiliate as a fund manager or other service provider. For further information please read carefully Envestnet's Form ADV Part 2A.

### **Item 7: Client Information Provided to Portfolio Managers**

Privacy is an important issue. KeyCorp's Privacy Policy is initially given to the client upon the opening of an account and is subsequently provided at least annually thereafter and also upon request to KIS advisory clients. KIS solicits information concerning a client's name, address, financial situation, investment experience, tax status, tax reporting information and other personal non-public information. KIS will ask for this prior to recommending a wrap account and on an annual basis thereafter. KIS will provide that information to participating Product Sponsors so that they may service the client's account. The Product Sponsor may then provide it to the portfolio manager, if any, for account servicing purposes. Please review Lockwood's Form ADV Part 2A and Part 2A Appendix 1 for further information on this item with respect to Lockwood advisory products and Envestnet's Form ADV Part 2A for further information on this item with respect to Envestnet advisory products. In addition, KIS will also provide such client information to Pershing or other service providers as necessary in connection with the performance of services for client accounts.

### **Item 8: Client Contact with Portfolio Managers**

Clients should first contact their KIS FA in order for the FA to arrange a direct consultation between the client and Envestnet or the client and Lockwood, as the case may be. For further information on contacting portfolio managers please read carefully Envestnet's Form ADV Part 2A and Lockwood's Form ADV Part 2A and Part 2A Appendix 1, as applicable.

### **Item 9: Additional Information**

#### **(1) Disciplinary Information**

Neither KIS nor any management person has had a reportable fine or penalty levied against it or such management person. Nor has it or any management person been involved in any arbitrations which implicate wrongdoing or reflect on its or such respective management person's integrity.

#### **(2) Other Financial Industry Activities and Affiliations**

KeyCorp, one of the nation's largest bank holding companies, is the sole owner of KIS through its subsidiary KeyBank National Association ("KeyBank").

KIS's principal business is as an introducing broker-dealer registered with the U.S. Securities and Exchange Commission, a member of Financial Industry Regulatory Authority, and various other regulatory bodies. As a broker-dealer, KIS may provide a variety of services (including non-advisory services) and render advice as to the value and/or advisability of purchasing or selling securities, without

receiving special compensation and solely incidental to the conduct of its business as a broker-dealer. The principal business of KIS's executive officers is the day-to-day management of the broker-dealer activities. KIS's executive officers are: Marc A. Vosen, President; Paul A. Hansen, Chief Operations Officer; Gary J. Marousek, Chief Compliance Officer; Matthew T. Gulla, Chief Financial Officer; and Paul A. Weick, Chief Legal Officer. All executive officers are KIS registered representatives and hold appropriate supervisory licenses.

KIS also provides advisory services through the programs as described in this brochure. Certain of KIS's affiliates also provide investment banking, foreign exchange, interest rate risk and equity risk management services and equity and fixed income proprietary research.

KIS FAs may also act as insurance agents for the sale of insurance products and policies that are available through KeyCorp Insurance Agency USA Inc., an affiliated insurance agency. KIS FAs may recommend the purchase of insurance products to clients and may receive commissions in connection with such purchases.

Various affiliates of KIS sponsor investment-related limited partnerships and limited liability companies and serve as general partner and manager, respectively, of such entities. KIS generally does not recommend that its advisory clients invest in these entities, and has no arrangements that are material to its advisory business or its clients with any of these entities, or with their affiliated sponsors with respect to such entities.

KeyCorp's bank and trust company subsidiaries offer personal and corporate trust services, personal financial services, access to mutual funds, cash management services, investment banking and capital markets products, and international banking services. Through its bank, trust company and registered investment subsidiaries, KeyCorp provides investment management services to clients that include large corporate and public retirement plans, foundations and endowments, high net worth individuals and Taft-Hartley plans.

KeyBanc Capital Markets, Inc. ("KBCM") is an affiliated broker-dealer registered with the United States Securities and Exchange Commission and member New York Stock Exchange and Financial Industry Regulatory Authority. KBCM provides brokerage services to institutional clients and also provides investment banking services. It does not provide services to KIS.

Key Real Estate Equity Capital, Inc. ("KREEC") is a wholly-owned subsidiary of KeyCorp. KREEC provides investment advisory services to a private fund for an institutional investor. KREEC's portfolio is comprised of structured products, debt instruments, and other investments related to commercial real estate assets and real estate operating companies. It does not provide services to KIS.

KPB Investment Advisors LLC ("KPBIA") is a wholly-owned subsidiary of KeyBank. KPBIA provides investment advisory services only to mutual funds investing in tax-exempt fixed income. It does not provide services to KIS.

### **(3) Code of Ethics**

As discussed below, KIS has in place an Investment Advisory Code of Ethics that provides for KIS and its FAs to exercise their fiduciary duty to clients to act in the best interest of the client and always place the client's interests first and foremost. KIS takes seriously its compliance and regulatory obligations and requires all staff to comply with such rules and regulations, as well as with KIS' policies and procedures.

KIS has a fiduciary duty to clients to act in the best interest of the client and always place the client's interests first and foremost. KIS takes seriously its compliance and regulatory obligations and requires all



staff to comply with such rules and regulations as well as KIS' policies and procedures. Further, KIS strives to handle clients' non-public information in such a way to protect information from falling into hands that have no business reason to know such information and provides clients with KeyCorp's Privacy Policy. As such, KIS maintains a Code of Ethics for its FAs, supervised persons and staff.

The Code of Ethics contains provisions for standards of business conduct in order to comply with federal securities laws, personal securities reporting requirements, pre-approval procedures for certain transactions, code violations reporting requirements, and safeguarding of material non-public information about client transactions. Further, KIS' Code of Ethics establishes KIS' expectation for business conduct.

KIS' Code of Ethics is distributed to each employee and FA at the time of hire/contract, and as the Code is modified. In addition, KIS requires an annual certification by all employees/FAs regarding their understanding and compliance with the Code of Ethics. KIS also supplements the Code with annual training and on-going monitoring of employee activity.

KIS's employees also adhere to KeyCorp's Code of Ethics. All employees must acknowledge the terms of both Codes, as amended, annually.

A copy of KIS's Code of Ethics will be provided to any client or prospective client upon request to our Compliance Department at 1-888-547-2968.

#### Participation or Interest in Client Transactions

KIS FAs are registered representatives with KIS and must execute securities transactions through KIS, unless FAs obtain authorization to execute securities transactions through another broker-dealer.

Related persons of KIS (any advisory affiliate and any person that is under common control with KIS) can buy or sell securities identical to those securities recommended to clients. Therefore, related persons will have an interest or position in certain securities that are also recommended and bought or sold to clients. The policy of KIS is that related persons shall not put their interests before a client's interest. FAs may not trade ahead of their clients or trade in such a way to obtain a better price for themselves than for their clients. KIS is required to maintain a list of all securities holdings for its associated persons. Further, associated persons are prohibited from trading on non-public information or sharing such information. KIS and its associated persons are required to conduct their securities and investment advisory business in accordance with all applicable Federal and State securities regulations.

In accordance with Section 204A of the Investment Advisers Act of 1940, KIS also maintains and enforces written policies and procedures reasonably designed to prevent the misuse of non-public information by KIS or any person associated with KIS. Further, the Code of Ethics contains prohibitions against such transactions.

No KIS advisor or related person is permitted to recommend securities to advisory accounts, or buy or sell securities for advisory accounts at or about the same time that the advisor or related person buys or sells the same securities for the adviser's own or related person's account.

KIS requires that all registered employees' brokerage accounts be held at KIS. If an employee cannot obtain needed services at KIS, it requires copies of all brokerage statements be provided to it directly from the third party broker.

#### **(4) Review of Accounts**

As set forth in Item 4, KIS has established an Investment Advisory Sub-Committee of senior KIS managers to review Product Sponsors and their advisory products on an annual basis to ensure general

suitability and that the respective Advisory Product's investment performance is appropriate. Your KIS FA will review your account annually with you to ensure that it is still a suitable investment for you.

In addition, before a wrap fee account is recommended, the KIS FA makes reasonable efforts to obtain information about the client's financial status, investment objectives, trading history, size of portfolio, nature of securities held and account diversification. Based on these factors and any other relevant information, the FA considers whether the account recommended is appropriate in light of the services provided, the projected cost to the client, alternative fee structures that may be available, and the client's fee structure preferences. Continued suitability is monitored annually with the client based on the initial factors set forth previously and any new information received concerning the client's financial situation. Clients are urged to contact their KIS FA if any significant change in their financial situation occurs so that their plan may be reviewed.

Generally, for each month in which there is activity in a client's account, or, if there is no activity, on a quarterly basis, clients receive through Pershing a written account statement which includes a summary of transactions, an inventory of holdings, and other information. Lockwood and Envestnet may also make available quarterly performance statements of client accounts detailing account performance, positions and activity to KIS and its FAs. The quarterly performance statements are intended to provide KIS and its FAs with sufficient information to determine whether the investment managers are performing in accordance with certain objective standards, such as a comparison of a client's account performance with respect to the performance of a relevant index, other investment managers who advise with respect to investment objectives similar to the client's, and other factors as KIS may determine. The quarterly performance statement data may be based upon information obtained from third parties. The data contained in those statements has not been verified by KIS. Clients also receive brokerage confirmations unless this option is waived by the client.

Investment managers (Lockwood, Envestnet or other portfolio managers) monitor and review their clients' accounts pursuant to their own compliance and supervisory systems of account review. Please read carefully Envestnet's Form ADV Part 2A and Lockwood's Form ADV Part 2A and Part 2A Appendix 1, as applicable.

#### **(5) Client Referrals and Other Compensation**

KIS does not pay referral fees to any third party that is not supervised by it. Certain compensation plans which its parent, KeyBank, sponsors are discretionary bonus plans. Revenues from KIS may be one of many factors (most of them not securities related) that determine the amount of the bonus under the plan. This revenue might be affected by a referral from a non-supervised banker and thus might affect the payout to that banker. However, referrals by that banker or any other banker may not be taken into account in determining bonus payments.

#### **(6) Financial Information**

KIS does not require its clients to pre-pay more than \$1,200 in fees per client six months in advance.

KIS is not aware of any financial condition that is reasonably likely to impair its ability to meet its contractual commitments to clients.

KIS has never filed or been the subject of a bankruptcy petition.