

Kearns & Associates LLC

6287 Via Escondido Drive

Malibu, California 90265

310-457-2125

Form ADV, Part 2A Brochure

March 7, 2014

This brochure provides information about the qualifications and business practices of Kearns & Associates LLC. If you have any questions about the contents of this brochure, please contact us at 310-378-4023. 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.

Any reference to or use of the terms "registered investment adviser" or "registered," does not imply that Kearns & Associates LLC or any person associated with Kearns & Associates LLC has achieved a certain level of skill or training.

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

ITEM 2 - MATERIAL CHANGES

Revised March 7, 2014

Kearns & Associates, LLC have not made material changes to this document over the last year. We review and update this brochure at least annually to make sure that it remains current.

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## **ITEM 4 - ADVISORY BUSINESS**

### **Description of Advisory Firm**

Kearns & Associates LLC ("Kearns & Associates," "we," "our," or "us") is a privately owned limited liability company headquartered in Malibu, California. Joseph J. Kearns founded Kearns & Associates in January 1998. Jeffrey J. Kearns joined Kearns & Associates in July 2003. The Kearns Family Trust is the principal owner of Kearns & Associates LLC and Joseph J. Kearns and Carole J. Kearns are trustees. Jeffrey J. Kearns is an individual owner of Kearns & Associates LLC.

Kearns & Associates has been exempt from federal registration, as we have been relying on the "private adviser exemption" under Section 203(b) (3) of the Investment Advisers Act of 1940. However, the Dodd-Frank Act eliminated this exemption, so we have sought registration with the U.S. Securities and Exchange Commission.

### **Advisory Services Offered**

Kearns & Associates provides investment consulting services. We are principally engaged in the following activities:

- Evaluation of portfolio construction and management
- Portfolio construction, which includes formulating asset mix, transition management, investment manager searches, implementation, and oversight
- Recommending unaffiliated third-party asset managers ("Asset Managers") to manage a portion or all of our clients' assets
- Ongoing monitoring and reviewing of Asset Managers
- Performance analysis and coordinating consolidated performance reporting, as required
- Portfolio management, which includes ongoing supervision, monitoring, and rebalancing of our clients' assets

Upon request, Kearns & Associates will conduct education seminars on investment-related topics to clients. We coordinate our clients' investments with their overall estate plans by working with each client's attorney, accountant and/or other advisors.

### **Tailored Services and Client Imposed Restrictions**

Kearns & Associates tailors its advice to each client's specific investment objectives and financial situation, as discussed below under Item 8 - Methods of Analysis, Investment Strategies, and Risk of Loss. We work with each client to define their risk tolerance and investment goals. Clients can direct us to not invest in certain investments or hold specific securities. We make investment decisions for clients based on information the client supplies about their financial situation, goals, and risk tolerance. Our recommendations may not be suitable if the client does not provide us with accurate and complete information. It is the client's responsibility to keep Kearns & Associates informed of any changes to their investment objectives or restrictions.

## **Assets Under Management**

As of 12/31/2013, the discretionary assets under our management are \$120,658,025 and \$1,327,097,323 is managed on a non-discretionary basis. Kearns & Associates typically has limited discretion in the management of assets. We discuss our discretionary authority below under *Item 16-Investment Discretion*.

## **ITEM 5 - FEES AND COMPENSATION**

### **Fee Schedule & Billing Method**

Kearns & Associates' services are offered based on a fixed retainer fee. Investment consulting fees generally range from a minimum of \$100,000 to \$200,000 annually. Fees are based on the scope, complexity of the services provided, and unique client needs. Some accounts may be under different fee schedules honoring prior agreements. Our fees may be negotiable based on a number of factors, which include but are not limited to "grandfathered" accounts, related accounts, and other structures that we may consider in special situations. Generally, we may aggregate client accounts that have family relationships with each other for purposes of determining the investment consulting fee applicable to each client. We also manage some family and related accounts without charge. Kearns & Associates may offer services on a pro-bono basis.

Investment consulting clients are generally subject to a minimum annual fee of \$100,000. However, we may make exceptions at our discretion based upon certain criteria including anticipated future earning capacity, anticipated future additional assets, account composition, related accounts, and pre-existing client relationships.

Our investment consulting fees are payable quarterly either in advance at the beginning of each calendar quarter or arrears at the end of each calendar quarter. We will send an invoice to each client. The invoice is payable upon receipt and will include the amount due.

### **Termination**

Either party may terminate the agreement upon thirty (30) days written notice to the other party. The client may terminate the agreement by writing to Kearns & Associates at our office. Upon notice of termination, Kearns & Associates will calculate the final fees due for services provided through the date of termination. Any investment consulting fees that we have earned for the services provided will be due upon termination. If the client paid fees in advance that were more than the amount due for services, Kearns & Associates will refund any unearned fees. We will prorate the refund based on the effective date of termination.

## **Other Fees and Expenses**

Kearns & Associates' fees do not include custodian fees or the fees charged by other Asset Managers. A client could invest with an Asset Manager directly, without using our services. In that case, the client would not receive the services we provide, which include assisting the client in determining which Asset Manager or Managers we feel are most appropriate to each client's financial condition and objectives. Accordingly, clients should review both the fees charged by the Asset Managers and the investment consulting fees we charge to understand the total amount of fees the client will pay and evaluate the advisory services we provide. Clients pay all brokerage commissions and stock transfer fees, and other similar charges incurred in connection with transactions in accounts, from the assets in the account.

## **Other Compensation**

We do not accept compensation from any Asset Manager that we recommend to manage a portion of our client's investments. We also do not accept compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds.

## **ITEM 6 - PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

Kearns & Associates does not charge performance-based fees or other fees based on a share of capital gains on or capital appreciation of the assets of a client.

## **ITEM 7 - TYPES OF CLIENTS**

Kearns & Associates provides services to individuals (including high net worth individuals), trusts, foundations and pension plans.

## **ITEM 8 - METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

### **Methods of Analysis and Investment Strategies**

Our process starts with continuous analysis of current and projected macroeconomic conditions. We look closely at relevant market issues and their effect in the capital markets.

### **Methods of Analysis for Selecting Independent Managers**

Kearns & Associates recommends unaffiliated third-party asset managers ("Asset Managers") for the management of all or a portion of a client's portfolio. Asset Managers are recommended based on several factors including each client's investment objectives and financial situation. We perform ongoing monitoring and due diligence on the Asset Managers by researching historical performance metrics as well as analyzing both the firm and its personnel. We recommend changes as necessary. Our due diligence process often includes onsite due diligence meetings with the Asset Managers that we recommend. Once an Asset Manager has been approved

for use in client portfolios, this level of due diligence continues. We perform ongoing performance review and continually evaluate the manager against its peers.

### **Investment Strategies for Managing Portfolios**

We seek capital growth proportionate with the level of risk the client is willing to take. We treat each client account uniquely. We recommend Asset Managers based on the clients' attitudes about risk and their need for capital appreciation or income, and we incorporate tax considerations. Different instruments involve different levels of exposure to risk. We deal with any client restrictions on an account-by-account basis. Since we treat each client account uniquely, we may recommend different asset allocations and different Asset Managers for client portfolios with similar investment objectives. In addition to the traditional stock and bond Asset Managers that we recommend, we also may offer our clients access to alternative investments, including hedge funds and private equity Asset Managers.

For certain portfolios, clients may grant us discretionary authority to trade specific securities held in their portfolio, such as low cost basis stock. In actual practice we monitor the securities and make recommendations as to the quantity and timing of transactions. In these instances, our policy is to obtain pre-approval from the client prior to implementing a specific trade on the client's behalf.

### **Investing Involves Risk**

Investing in securities involves risk of loss, and clients should be prepared to bear that risk.

### **Specific Security Risks**

#### **General Risks of Owning Securities**

The prices of securities held in client accounts and the income they generate may decline in response to certain events taking place around the world. These include events directly involving the issuers of securities in a client's account, conditions affecting the general economy, and overall market changes. Other contributing factors include local, regional, or global political, social, or economic instability and governmental or governmental agency responses to economic conditions. Finally, currency, interest rate, and commodity price fluctuations may also affect security prices and income.

### **Alternative Investments**

Investing in alternative investments such as hedge funds and private equity funds is speculative and involves certain risks, which is why investing in private funds may not be suitable for all investors and are intended for sophisticated investors who can accept the risks associated with its investments. Private funds do not sell publicly and are therefore illiquid. An investor may not be able to exit a private fund or sell its interests in a private fund before the fund closes.



## **Asset Manager Strategies and Risks**

The Asset Managers that Kearns & Associates recommends utilize their own investment processes and methods of analysis. The strategies and securities these Asset Managers invest in may have different or additional risks than those described in this brochure. Clients can find more information about the strategies and related risks of the Asset Managers in Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss in each manager's Form ADV disclosure brochure.

## **ITEM 9 - DISCIPLINARY INFORMATION**

Kearns & Associates and our personnel seek to maintain the highest level of business professionalism, integrity, and ethics. Kearns & Associates does not have any disciplinary information to disclose.

## **ITEM 10 - OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

Kearns & Associates does not offer any other services or have any affiliates in the financial industry. Joseph J. Kearns is a director of the Morgan Stanley Funds, where he serves as Chairman of the Audit Committee as well as the Designated Financial Expert as required by the Sarbanes-Oxley Act of 2002. We do not share operations with the Morgan Stanley Funds or any of its affiliated entities (collectively, "Morgan Stanley") and have no business dealings with Morgan Stanley. Clients of Kearns & Associates are not referred to Morgan Stanley, and Morgan Stanley does not refer prospective clients to Kearns & Associates. We have no reason to believe that Joseph J. Kearns' serving as a director of the Morgan Stanley Funds creates a conflict of interest for our clients or presents a time burden on Mr. Kearns' required duties to Kearns & Associates and its clients.

In addition, Joseph J. Kearns is a director of the Electro Rent Corporation, where he serves as Chairman of the Audit Committee, and a director of the Ford Family Foundation, where he serves as Chairman of the Audit Committee. Lastly, Joseph J. Kearns is a trustee of Mount Saint Mary's College, where he serves as Chairman of the Investment Committee. We have no reason to believe that any of these activities create a conflict of interest for our clients or presents a time burden on Mr. Kearns' required duties to Kearns & Associates and its clients.

## **ITEM 11 - CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

### **Code of Ethics**

Kearns & Associates believes that we owe clients the highest level of trust and fair dealing. As part of our fiduciary duty, we place the interests of our clients ahead of the interests of the firm and our personnel. Kearns & Associates' personnel are required to conduct themselves with integrity at all times and follow the principles and policies detailed in our Code of Ethics.

Kearns & Associates' Code of Ethics attempts to address specific conflicts of interest that either we have identified or that could likely arise. Kearns & Associates' personnel are required to follow clear guidelines from the Code of Ethics in areas such as gifts and entertainment, other business activities, prohibitions of insider trading, and adherence to applicable federal securities laws. Additionally, individuals who formulate investment advice for clients, or who have access to nonpublic information regarding any clients' purchase or sale of securities, are subject to personal trading policies governed by the Code of Ethics (see below).

Kearns & Associates will provide a complete copy of the Code of Ethics to any client or prospective client upon request.

### **Personal Trading Practices**

Kearns & Associates' investment consulting services involve recommending unaffiliated third-party asset managers ("Asset Managers") for the management of client portfolios. However, there are certain clients who have requested that we retain discretionary authority over specified individual securities in their portfolio. In these instances, our policy is to obtain client approval before transacting in these securities on the client's behalf.

Our personnel may purchase or sell securities for themselves that we or the Asset Managers also recommend to clients. This presents a potential conflict of interest as we may have an incentive to take investment opportunities from clients for our own benefit, favor our personal trades over client transactions when allocating trades, or use the information about the transactions we intend to make for clients to our personal benefit by trading ahead of clients. While we generally do not have prior knowledge of the individual securities transactions that Asset Managers make in client portfolios, our objective is that Kearns & Associates' personnel do not personally benefit from the short-term market effects of their recommendations to clients.

Our policies to address these conflicts include the following:

1. We prohibit trading in a manner that takes personal advantage of investment recommendations we make for clients.
2. Our personnel's personal trades in positions also held in client accounts must take place only after all transactions in clients' accounts have been placed. In the case of portfolios that are managed by third-party Asset Managers, our personnel must not transact in any security (in their personal account) that they know is also being considered in a client account, until that security transaction has been executed in our client's account.
3. Conflicts of interest also may arise when Kearns & Associates' personnel become aware of Limited Offerings or IPOs, including private placements or offerings of interests in limited partnerships or any thinly traded securities, whether public or private. Given the inherent potential for conflict, Limited Offerings and IPOs demand extreme care.

Our personnel must obtain pre-approval from the Chief Compliance Officer before trading in these types of securities.

4. Kearns & Associates maintains records of quarterly personal securities transactions and annual securities holdings.

#### **ITEM 12 - BROKERAGE PRACTICES**

Kearns & Associates generally requires clients to open one or more accounts in their own name at a qualified custodian of the client's choice. For clients in need of brokerage or custodial services, Kearns & Associates may recommend, but not require, the use of certain broker-dealers/custodians based on the client's investment strategy and the types of securities held in a clients' portfolio. We consider several factors in selecting broker-dealers/custodians. Factors that we may consider may include their execution capabilities, pricing, research, ease of use, and technology available to monitor our client's portfolios (including those managed by third-party Asset Managers). We also consider reputation and financial strength.

Clients are not under any obligation to custody their assets with any custodian we recommend. All clients are free to select any custodian of his or her choice. The client will enter into a separate agreement with the custodian to custody the assets. Some clients grant Kearns & Associates discretion to select broker-dealers for client transactions. Other clients may direct us to use a particular broker-dealer for some or all of the client's transactions. Kearns & Associates is independently owned and operated and is not affiliated with any broker-dealer or custodian.

Kearns & Associates does not require Assets Managers to use a specific broker-dealer when executing client transactions.

#### **Directed Brokerage Transactions**

Clients who direct Kearns & Associates to use a particular broker-dealer for some or all trading may pay higher commission charges. Under these circumstances, Kearns & Associates may not have authority to negotiate commissions or obtain volume discounts, and best execution may not be achieved. Clients should further understand that, when they direct Kearns & Associates to use a specific broker, disparity in transaction charges might exist compared with the transaction costs charged to other clients. Any client providing instructions to Kearns & Associates regarding direction of brokerage must notify us if the client desires Kearns & Associates to cease executing transactions with or through any such broker-dealer.

While we typically do not conduct transactions in our client accounts there are instances when we have the authority to place trades for our clients. In these instances, the transactions for each client will be effected independently and will not be aggregated. While aggregating trades may benefit clients by purchasing or selling in larger blocks, we do not feel that clients are at a disadvantage due to the best execution practices of our custodian.

## **ITEM 13 - REVIEW OF ACCOUNTS**

### **Managed Account Reviews**

Generally, either the President or Vice President will review all client accounts on a daily basis. We offer account reviews to clients on a quarterly basis. Clients may choose to receive reviews in person, by telephone, or in writing. Either the President or Vice President conducts client reviews based on a variety of factors. These factors may include but are not limited to stated investment objectives, economic, environment, outlook for the securities markets, and the merits of the securities in the accounts.

### **Account Reporting**

Each client receives a written statement from the custodian that includes an accounting of all holdings and transactions in the account for the reporting period. Depending on the terms of the agreement, we may provide clients with written custom reports. Lastly, we periodically provide clients with economic and investment commentary.

## **ITEM 14 - CLIENT REFERRALS AND OTHER COMPENSATION**

Kearns & Associates does not refer outside third-party professionals to our clients. We also do not provide any compensation to individuals or firms that may refer our services to prospective clients.

## **ITEM 15 - CUSTODY**

Kearns & Associates does not take custody of client funds or securities.

## **ITEM 16 - INVESTMENT DISCRETION**

Generally, Kearns & Associates does not have discretionary authority over client assets. We have limited discretion over the asset allocation of client portfolios, but generally we recommend certain Asset Managers for the management of client portfolios, and it is up to the client to approve our recommendations. Typically, clients grant us this limited authority in the investment management agreement.

In rare cases, Kearns & Associates has full discretionary authority to monitor our client's portfolio and decide the specific securities to trade, the quantity, and the timing of transactions. Our policy is to obtain pre-approval from the each client prior to implementing a specific trade on the client's behalf.

## **ITEM 17 - VOTING CLIENT SECURITIES**

Kearns and Associates does not accept or have the authority to vote on matters requiring shareholder voting in connection with the securities held in a client's account, or with respect to certain legal actions involving securities including, for example, voting of proxies, mergers, bankruptcies or restructuring, class actions, or similar matters.

However, clients can give that authority to the Asset Managers that we recommend to manage the various asset classes of a client's portfolio. Clients will retain the proxy voting authority for any portfolio that is not managed by an Asset Manager.

Clients can contact either Kearns & Associates or the Asset Managers if they have questions about a particular solicitation. Kearns & Associates will not be deemed to have proxy voting authority solely as a result of providing advice or information about a particular proxy vote to a client.

#### **ITEM 18 - FINANCIAL INFORMATION**

Registered investment advisers are required in this item to provide clients with certain financial information or disclosures about the firm's financial condition. Kearns & Associates does not require the prepayment of more than \$1,200 in fees per client, six months or more in advance; does not have or foresee any financial condition that is reasonably likely to impair our ability to meet contractual commitments to clients; and has not been the subject of a bankruptcy proceeding.