

KMS Financial Services, Inc.
Form ADV Part 2A Firm Brochure

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This brochure provides information about the qualifications and business practices of KMS Financial Services, Inc. (“KMS”). This information has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state regulatory authority.

KMS is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training. Additional information about KMS is available at www.kms.com and the SEC’s website at www.adviserinfo.sec.gov. If you have questions about the contents of this brochure, please contact us at (206) 441-2885.

Item 2 – Material Changes

Since December 2014, KMS has made material and non-material changes to this Brochure. All changes are listed here for ease of reference and review. Item 10 (Other Financial Industry Activities and Affiliations) adding language regarding KMS Advisors recommending Premier Trust to Clients and the revenue sharing arrangement for such recommendation which is a conflict of interest. Item 14 (Client Referral and Other Compensation) describes that Ladenburg Thalmann & Co. Inc (“LTCO”) acts as dealer of certain securities transactions which is a conflict of interest and how KMS addresses this conflict.

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Item 4 – Advisory Business

KMS, founded in 1971, is a Seattle-based, independent investment advisory firm registered with the SEC. KMS is also a securities broker-dealer registered with the SEC, the Financial Industry Regulatory Authority (“FINRA”), and all 50 states plus the District of Columbia.

KMS operates through supervised financial professionals who are investment advisory representatives and/or securities registered representatives. Registration does not imply any particular level of skill or training, although many KMS Representatives maintain related certifications and designations. Ladenburg Thalmann Financial Services Inc. (“LTFS”) owns 100% of KMS. LTFS is listed on the New York Stock Exchange under the symbol LTS. Dr. Phillip Frost and related entities, Gamma Trust and Nevada Trust are beneficial owners of over 25% of LTFS.

KMS offers a range of investment advisory services through multiple platforms and custody arrangements. Those services include financial planning, investment advice and asset management for fees based on a percentage of assets under management, as well as advisory services of a number of unaffiliated third-party investment advisors. KMS offers these products and services to the public through its investment advisory representatives (“Advisors” or “KMS Advisors”).

Each KMS Advisor should provide his or her advisory Clients with details of the Advisor’s background in a 2B Brochure Supplement, which should be included herein. **If you have not received such 2B Brochure Supplement, please contact your Advisor or KMS.**

As of December 31, 2013, KMS had approximately \$3.077 billion of discretionary assets under management and approximately \$1.487 billion of non-discretionary assets under management for a total of approximately \$4.564 billion assets under management.

If a KMS Advisor offers investment advice for a fee, that Advisor may tailor the advisory services he or she offers to the individual requests of specific Clients. For example, Clients may request that certain securities or types of securities be avoided. If it is difficult to determine all of the underlying securities of a particular advisory product or service, the Advisor will make reasonable efforts to avoid the specified securities or type of securities.

Wrap Fee Program: KMS does *not* perform portfolio management services as part of *other* sponsors’ wrap fee programs. Through its Advisors, KMS *does* provide portfolio management services under a “wrap fee” structure, i.e., a single fee which covers certain transaction costs as well as portfolio management services and advice. Generally the portfolio management services under the KMS Wrap Fee Program are similar to other KMS portfolio management services under different fee structures. Several factors should be evaluated when considering a KMS Wrap Fee program account including, but not limited to: account size; anticipated account trading volume; management style; investment goals; and client preference for a portfolio management program which includes transaction charges. There are no commissions charged in KMS’ Wrap Fee program; however, the Program charges a 25 basis point (0.25% per year) administrative retention (platform) fee that is paid from (i.e., out of) the advisory fee collected from Wrap Fee accounts. This does not increase your advisory fee (but please note that wrap accounts typically have a higher standard fee schedule than non-wrap accounts due to the decreased portion of the fee that is shared with your KMS Advisor). KMS receives a portion of the platform fee. KMS’ Wrap Fee program brochure is available through KMS or your Advisor.

Financial Planning and Consulting Services: KMS Advisors may offer **Financial Planning Services**, which may include collecting financial data, developing income and net worth statements, estate analysis, estate tax calculations, income tax analysis, investment analysis and general recommendations, and preparing a formal financial plan. KMS Advisors may provide occasional personal income or estate tax planning ideas which should be reviewed and implemented by your independent tax professional(s). Services are offered under an Advisory Agreement – Financial Consulting.

KMS Advisors may provide **Retirement Plan Consulting** by helping Clients in establishing new or converting existing retirement plans or accounts, recommending or selecting investments to be made available to plan participants, providing participant or fiduciary education, assisting in service provider evaluation or benchmarking, or providing performance reports and other performance related information. Retirement plans are usually participant-

directed, but in some situations KMS Advisors are granted trading authority in the advisory contract. Services are offered under an Advisory Agreement – Financial Consulting or Retirement Plan Advisory Agreement.

Advisor Asset Management Services: KMS Advisors may offer **Portfolio Monitoring and Consulting Services** by monitoring a Client's account holdings, providing ongoing investment recommendations and advice, and asset management through discretionary or nondiscretionary trade placement consistent with the Client's investment objective, as declared in the advisory agreement. **There is no guarantee that the recommendations or trades will meet a Client's investment objective over any given time frame.** Advisor will deliver to the Client performance report(s) on the schedule specified in the advisory agreement. Accounts may be held at the following custodians: Pershing LLC, Charles Schwab & Co., Inc. ("Schwab"), Fidelity Institutional Wealth Services ("Fidelity"), or TD Ameritrade, Inc. ("TD Ameritrade"). The custodian provides account statements directly to the Client. KMS urges Clients to promptly review all such account information.

Accounts may be traded on a discretionary or nondiscretionary basis, as specified in the advisory contract. Accounts will incur transaction fees which will vary depending upon the type of investment and the custodian. For assets held at Schwab, the client transaction fee schedule available is based on your Advisor's aggregate assets under management at Schwab. Services are offered under an Asset Management Advisory Agreement.

KMS as SubAdvisor to other Registered Investment Advisors: On occasion KMS may be engaged to provide SubAdvisor investment advisory services, research and advice to another Registered Investment Advisor ("RIA"). In such event, that RIA's clients will be engaged by such independent RIA through its own client advisory services agreement and KMS is engaged by the independent RIA only.

Tactical Monitoring is a service offered by a few KMS Advisors that sets objectives-driven asset allocation models in specified variable annuity sub-accounts, variable life sub-accounts, unit investment trusts ("UITs"), exchange-traded funds ("ETFs") and/or mutual funds. Other compensation or commissions may accompany those products and the advisory fees are negotiated in anticipation of that compensation. Percentage allocations in the models may change due to intervening market movements and/or authorized exchanges, but remain consistent with the guideline investment objective. Tactical Monitoring combines Advisor's subjective review, control, and implementation of a trend-following analysis provided by AdvisorGuide, an independent and unaffiliated entity that measures daily price movements of portfolio securities. Advisor will deliver performance report(s) to the Client on the schedule specified by the Client in the advisory agreement. The custodian of accounts under Tactical Monitoring will provide account statements directly to the Client. Services are offered under an Asset Management Advisory Agreement specifying Tactical Monitoring.

Assets with **Schwab Managed Account Select Program** are charged a program fee (Wrap Program) as detailed in the Schwab Managed Account Select application and agreement. Assets with **Schwab Managed Account Marketplace Program** are charged separately by Schwab for brokerage and custody services, and by the Money Manager as detailed in the Advisory Agreements. In both programs a separate fee is charged by KMS for portfolio monitoring and consulting. With written notice, Clients may terminate these contracts at any time. Services are offered under Advisory Services Agreement/Schwab Managed Account Program.

Assets with **TD Ameritrade Institutional Managed Account Placemark Programs** are charged a program fee as detailed in the TD Ameritrade Placemark application and agreement. Accounts may be managed through a variety of investment options which are selected by the Client based on their investment objectives, time horizon, income needs and risk tolerance. Assets with TD Ameritrade Managed Account Placemark Program are charged separately by TD Ameritrade for brokerage and custody services and by the Money Manager through Placemark as detailed in the Advisory Agreements. For this program a separate fee is charged by KMS for portfolio monitoring and consulting. With written notice Clients may terminate these contracts at any time. Services are offered under Advisory Services Agreement/Placemark Account Program.

SubAdvisors: KMS has agreements with other Registered Investment Advisors to provide KMS Clients with investment advisory services, research, and advice. KMS remains the Client relationship manager and investment advisor, and shares fees with the SubAdvisor. Services are offered through the appropriate KMS advisory agreement. SubAdvisors generally manage such accounts on a discretionary basis. Clients under SubAdvisor relationships receive statements from the various custodians who hold the accounts as well as reports from the SubAdvisor.

KMS offers SubAdvisor services through Raymond James & Associates, Inc., SEI Trust Co., SNW Asset Management, LLC, Lesa Sroufe & Co., Inc., and Runde & Co. Clients entering into a SubAdvisor relationship through KMS should receive the SubAdvisor's Brochure. KMS encourages Clients to thoroughly review these documents. Clients may also review information on the SubAdvisors via the SEC's web site, www.adviserinfo.sec.gov.

Third Party Advisors: Third Party Advisors provide various services described in their marketing materials and contracts. A KMS Advisor may recommend a Third Party Advisor and/or may recommend a particular investment objective or category offered by that Third Party Advisor. In most Third Party Advisor programs the KMS Advisor acts as a solicitor and works directly with the Client to select and monitor the desired services. The Third Party Advisor will provide money management services and reporting. Clients receive statements from the various custodians who hold their account(s). Clients entering into a Third Party Advisor relationship through KMS should receive the Third Party Advisor's Brochure. KMS encourages Clients to review these documents. Clients may also learn more about the Third Party Advisor via the SEC's web site www.adviserinfo.sec.gov.

Item 5 – Fees and Compensation

In the course of providing advisory services to Clients, KMS and Advisor receive advisory fees as described in the relevant advisory contract.

Financial Planning and Consulting Services Fees are charged as an hourly fee, project fee or ongoing annual consulting fee depending upon the complexity of the Client's financial situation or the level of services desired. Fees may be partially or fully payable in advance, with the balance payable upon delivery of the plan (if applicable) or completion of the agreed service(s). Fees are negotiable depending upon services offered by Advisor.

Retirement Plan Consulting Fees are negotiable depending upon services offered by the Advisor. Fees are payable as described in the relevant advisory agreement. With written notice Clients may terminate the advisory agreement at any time and receive a full pro-rata refund of unearned fees.

KMS Advisor Asset Management Services Fees are generally based at or below the following schedule. Rates may be negotiated:

Portfolio Monitoring and Consulting Services

<u>Portfolio Assets Valued At:</u>	<u>Annualized Fee</u>
On the first \$100,000	1.75%
On the next \$150,000	1.50%
On the next \$250,000	1.25%
On the next \$500,000	1.00%
On amounts over \$1,000,000	0.75%

Portfolio Monitoring and Consulting fees are generally calculated and payable quarterly, in advance, based on the portfolio value as of the last business day of the prior time period. Some contracts call for different billing cycles (monthly, semi-annually or annually) and/or charge in arrears, that is, at the end of the billing cycle. KMS will deduct the fee from the account or, depending upon the custodial platform, the client may be issued an invoice and remit check payment. With written notice, Clients may terminate these contracts at any time and receive a full pro-rata refund of unearned fees. Fees are negotiable and may be higher or lower than the standard schedule depending upon services provided by Advisor. Individual Advisors may impose a minimum account size and/or minimum fee. Services are offered under an Asset Management Advisory Agreement.

KMS and Advisors charge investment advisory fees to manage assets as detailed in investment advisory agreements. KMS Advisors will recommend and purchase mutual funds in advisory accounts. To the extent Clients own mutual funds, Clients will incur advisory fees along with those advisory fees borne by the mutual fund. Clients also incur brokerage and transaction costs, in addition to any advisory fee, unless a wrap account is chosen. (Please also see Item 12, discussing brokerage practices.) Information on brokerage and transaction costs is made available by each custodian (broker-dealer). For advisory accounts held at Schwab, TD Ameritrade or Fidelity, KMS is not the broker-

dealer and neither KMS nor Advisor receives 12b-1 fees (“Trails”) or any portion of commissions or transaction charges.

As noted above, KMS Advisors offer investment advisory accounts custodied at three other broker dealers: Schwab, TD Ameritrade and Fidelity. Some mutual funds pay Trails and some do not. For KMS advisory accounts held at Schwab, TD and Fidelity, KMS does not earn any Trails from any funds that pay such fees to the broker-dealer on the account. However, KMS and Advisors will earn Trails for advisory accounts held at Pershing which constitutes a conflict of interest since it creates a potential incentive for KMS and Advisor to select Pershing as the custodian for its advisory accounts. Generally, if the same mutual fund offers different share classes, the fund that does not pay Trails offers lower expenses which means a more advantageous return to the shareholder. KMS Advisors will recommend in some, but not all cases, mutual funds that pay Trails to the broker-dealer on the account. Trails, generally 0.25% (annually) of the mutual fund value paid quarterly, can be higher or lower depending upon the specific mutual fund company, share class, or trading platform. To the extent Clients own Trail-paying mutual funds, Clients bear the costs of such Trails (through the net asset value of the mutual fund) and KMS and Advisors receive the Trail revenue that accrues, if any. KMS monitors and addresses this conflict of interest in a variety of ways: through Client disclosure, initial limitations on the standard advisory fee schedule or negotiating lower fees, payment of Trails to Client accounts, providing additional discounts, and/or reducing advisory fees by Trails received. Clients can also choose to purchase recommended securities through other broker-dealers or agents.

When providing Portfolio Monitoring and Consulting for ERISA plan accounts, KMS reduces the advisory fee by any Trails received, credits such amounts back to the account, or considers the Trails received when calculating the advisory fee due.

KMS as SubAdvisor to Other Registered Investment Advisors: In the event that KMS is engaged to provide SubAdvisor investment advisory services, research and/or advice to an independent Registered Investment Advisor (“RIA”), KMS will receive compensation based on a percentage of the assets under management for which KMS is providing advisory services, payable quarterly in advance. Clients of the independent RIA receiving KMS SubAdvisor advisory services which terminate the services of the independent RIA will receive a pro-rata refund of unearned fees through a refund to the independent RIA.

Tactical Monitoring Services Fee Schedule

<u>Portfolio Assets Valued At:</u>	<u>Annualized Fee (at or below)</u>
On the first \$250,000	1.00%
On the next \$250,000	0.75%
On amounts over \$500,000	0.50%

Tactical Monitoring Service Fees are calculated and payable quarterly, semi-annually, or annually in advance, based on portfolio value as of the last business day of the prior time period. With written notice, Clients may terminate the service and receive a pro-rata refund of any unearned portion of fees paid. Client and Advisor may agree to an adjustment in the above fee schedule, contemplating the conflict of interest any expected Trails or other disclosed compensation, which could be as high as 1% per year. Services are offered under a Tactical Monitoring Advisory Services Agreement or Asset Management Advisory Agreement.

SubAdvisor Fees: In addition to the KMS fee arrangement, SubAdvisors charge separate fees for the services provided. The fee schedules for each SubAdvisor are detailed below. Fees are calculated and payable quarterly either in advance or in arrears, based on the portfolio value as of the last business day of the prior time period. With written notice, Clients may terminate these contracts at any time and receive a full pro-rata refund of unearned fees. Client and Advisor may agree to an adjustment in the fee schedules detailed below.

Raymond James & Associates, Inc. (Asset Management Advisory Agreement) *

<u>Portfolio Assets Valued At:</u>	<u>Annualized Fee</u>
On the first \$1,000,000	1.60%
On the next \$1,500,000	1.20%
On amounts over \$2,500,000	0.80%

* Accounts are held at Pershing

SEI Investments Asset Allocation Portfolios (Asset Mgmt. Adv. Agreement–SEI Asset Allocation)*

<u>Portfolio Assets Valued At:</u>	<u>Annualized Fee</u>	
On the first \$250,000	1.50%	* Accounts are held at SEI Trust Company
On the next \$250,000	1.25%	
On the next \$500,000	1.00%	
On the next \$1,000,000	0.75%	
On amounts over \$2 million	0.50%	

SNW Asset Management, LLC (Asset Management Advisory Agreement)

0.30% if the account has less than \$2,500,000, 0.25% if the account has more than \$2,500,000.

If an account has more than \$50,000,000 assets under management, the fee is negotiable.

Accounts are held at Pershing or at Schwab.

Lesca Sroufe & Co. (Asset Mgmt. Advisory Agreement, Client Service & Referral Agreement) *

<u>Portfolio Assets Valued At:</u>	<u>Annualized Fee</u>	
On the first \$100,000	1.75%	* Accounts may be held at Pershing or Schwab
On the next \$150,000	1.50%	
On the next \$250,000	1.25%	
On the next \$500,000	1.00%	
On amounts over \$1 million	0.75%	

Runde & Co. (Asset Management Advisory Agreement)

0.50% on the portfolio assets valued on the last business day of the prior quarter. This rate may be subject to a minimum annual fee of \$2,500.

Third Party Advisor Fees: Third Party Advisors' fee schedules vary and are published in their own contracts and disclosure documents, including their respective Form ADV Part 2A Brochures. Fees are calculated and payable quarterly, either in advance or in arrears, depending upon the Third Party Advisor. With written notice Clients may terminate these contracts at any time, and, if fees were paid in advance, receive a pro-rata refund of any unearned portion. Depending on the Third Party Advisor, fees may be negotiable within pre-established limits.

Item 6 – Performance-Based Fees and Side-By-Side Management

KMS does not have any performance-based fee structures or side-by-side management offered directly by KMS Advisors. However, some Third Party Advisors available through KMS may offer performance-based fee structures as disclosed in their ADV and agreements. In situations where KMS receives a portion of the asset management fee as disclosed in a solicitor arrangement, to the extent they include performance-based fees earned by the Third Party Advisor, KMS would be indirectly participating in performance-based fees. Information regarding any potential conflict of interest by offering performance-based fees is available in the Third Party Advisor's Brochure.

Item 7 – Types of Clients

KMS Advisors provide advisory services and investment advice to individuals, pension and profit sharing plans, trusts, estates, charitable organizations, businesses and government entities. ERISA Plan clients are provided with disclosure documents, which provide information about KMS' qualifications, business practices and potential conflicts of interest that may be important for any ERISA Plan to consider. If you are a Named Fiduciary for an ERISA Plan and you have not received such disclosure documents, please contact your Advisor or KMS.

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

Methods of Analysis & Investment Strategies: KMS Advisors may use various methods to determine an appropriate investment strategy for Client accounts. During a Client's initial and subsequent interactions, the Advisor will discuss the methods and strategies he or she uses or can use given various investment objectives. These methods and strategies are formulated by the Advisors and not by KMS at the firm (home office) level. The analysis to be performed may include the following:

Fundamental Analysis: involves analyzing individual companies and their industry groups, reviewing earnings, financial statements, and the quality of a company's management. These factors are used to determine, along with the price of the stock, the relative value, strength and position of the company. See the general types of investment risk below.

Asset Allocation: Asset allocation investment strategies attempt to optimize the risk and reward profile of a portfolio (based on prior performance over various time frames) by investing among several asset classes. In addition to the general types of investment risks discussed below, this strategy is based on past performance, which is not indicative of future results.

Timing Services: Some KMS Advisors offer advisory services that attempt to time movements of various markets or investments. The intent with these strategies is to capture most if not all of a market upside while avoiding most if not all of a market downside. These objectives may not be achieved; in fact, over any given time period, performance may be less advantageous than staying fully invested or staying out of the markets completely. Many mutual funds and variable annuities prohibit excessive buying and selling within their account during a specified time period, which can affect the execution and performance of a strategy.

Technical Analysis: involves the study of price patterns and trends in the prices of securities (or index of securities) to attempt to predict future price trends. Factors such as trading volume, demand, and security price fluctuations may be considered. Past trends and patterns may not actually be indicative of future results.

Cyclical Analysis: this is a type of technical analysis that involves evaluating recurring price patterns and trends.

General Types of Investment Risk: Investing in securities involves risk of loss that you should be prepared to bear. All investment programs have certain risks that are borne by the investor. Investors face the following risks:

Interest-rate Risk: Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline.

Market Risk: The price of a security (stock, bond, mutual fund, etc.) may drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's particular underlying circumstances. For example, political, economic or social conditions may trigger market events.

Inflation Risk: When inflation is present, a dollar today will not buy as much as a dollar next year because the purchasing power is eroded.

Currency Risk: Overseas investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This risk is also sometimes referred to as "exchange rate risk."

Reinvestment Risk: This is the risk that future distributions (or liquidation proceeds) from investments may have to be invested at a potentially lower rate of return. This risk primarily relates to fixed income investments (bonds), which might need to be reinvested at lower interest rate than the initial investment.

Business Risk: These risks are associated with a particular industry or particular company within an industry. For example, automobile companies are generally all subject to the same business risks that confront their industry.

Concentrated Investment Risk: Certain investment strategies may be concentrated in a specific sector or industry or individual security. If you invest in a portfolio or strategy that is made up of a concentrated position, sector or industry, your portfolio will be more likely to sharply increase or decrease in value with changes in the markets. Concentrated strategies are typically more volatile because the risk associated with each security represents a large percentage of your overall portfolio.

Item 9 – Disciplinary Information

Registered investment advisors are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of KMS or the integrity of KMS' management personnel. No events have occurred at KMS that are applicable to this Item.

Item 10 – Other Financial Industry Activities and Affiliations

KMS is also a securities broker-dealer and as such sells securities products and services. Many KMS Advisors are also licensed with KMS as securities Registered Representatives, which allows them to provide brokerage services to Clients by executing securities transactions. KMS Advisors may also be licensed insurance agents appointed with various insurance companies. In their capacities as Registered Representatives and/or licensed insurance agents, KMS Advisors may offer securities and insurance products and will receive compensation as a result of such transactions or services. This presents a conflict of interest because they have an interest in earning commissions that may be adverse to your interests. KMS monitors this conflict of interest through its broker-dealer supervisory and compliance review system.

KMS is a wholly owned subsidiary of Ladenburg Thalmann Financial Services Inc. ("LTFS"). Other companies that are owned by LTFS and thus affiliated with KMS are:

Ladenburg Thalmann Fund Management, LLC (LTFM)	50% owned by LTAM
Ladenburg Thalmann & Co. Inc. (LTCO)	100% owned by LTFS
Ladenburg Capital Agency Inc.	100% owned by LTFS
Triad Advisors, Inc.	100% owned by LTFS
Triad Hybrid Solutions, LLC	100% owned by LTFS
Investacorp, Inc.	100% owned by LTFS
Investacorp Advisory Services	100% owned by LTFS
Premier Trust, Inc.	100% owned by LTFS
Securities America Financial Corporation (SAFC)	100% owned by LTFS
Securities America, Inc.	100% owned by SAFC
Securities America Advisors, Inc.	100% owned by SAFC
Arbor Point Advisors, LLC	80% owned by SAFC
HCHC Acquisition, Inc. (HCHC)	100% owned by LTFS
Highland Capital Brokerage, Inc.	100% owned by HCHC

KMS Advisors may recommend Premier Trust to provide trust and administrative services. Premier Trust provides full disclosure with respect to its trust and administrative services and related costs. KMS will receive 10% of the trust and administration fees clients pay to Premier Trust for trust administration services. Receipt of this revenue by KMS, who will share it with KMS Advisors, constitutes a conflict of interest. Clients are not obligated to use Premier Trust for trust administration services.

KMS Advisors may also operate companies or offer services independent of KMS. These unaffiliated companies or services may include other investment advisory firms, accounting or tax practices, insurance services, pension consulting services, and legal services, among others. These independent products or services can create conflicts of interest insofar as they may create incentives for Advisors to recommend those products or services. KMS routinely reviews these "outside businesses" and also mitigates this conflict through client disclosure. Clients should discuss these potential conflicts of interests with their Advisor to determine if an advisory relationship is appropriate, given their particular situation. Also, please note that KMS as RIA has a material conflict of interest in using itself as Broker-Dealer. Please also see Items 4, 5, 12 and 14.

Neither KMS nor any of its management personnel is registered as a futures commission merchant, commodity pool operator, commodity trading advisor, or associated person of such entities.

Item 11 – Code of Ethics and Personal Trading

Like any SEC-registered investment adviser, KMS maintains an Investment Advisory Code of Ethics based on KMS' fundamental duty to place the interest of our Clients first at all times. KMS Advisors acknowledge in writing that they will follow KMS' Code of Ethics. For a copy of the Code of Ethics, please contact KMS or your Advisor.

In summary, KMS' Code of Ethics requires Advisors to:

- (1) follow ethical standards of conduct, which includes providing investment advice that is consistent with your stated investment objectives, financial needs and circumstances;
- (2) safeguard your confidential information;
- (3) not engage in fraudulent, deceptive or manipulative conduct;
- (4) not recommend a securities transaction without disclosing significant conflicts of interests;
- (5) comply with certain trading policies on Personal Securities Transactions, which, in general: (a) prohibit an Advisor from trading a security before a Client; and (b) prohibit an Advisor from opening or having a personal securities trading account without prior written KMS approval;
- (6) not act on or distribute material, nonpublic information; and
- (7) not participate in an initial public offering or private placement without KMS' prior written approval.

The fact that KMS or an Advisor may actually own the same security as one or more of his Clients constitutes a conflict of interest. KMS monitors trading activity to ensure that Clients are not disadvantaged relative to KMS or Advisors when trading such securities.

Item 12 – Brokerage Practices

KMS Advisory accounts may be held at the following custodians: Pershing LLC, Charles Schwab & Co., Inc. ("Schwab"), Fidelity Institutional Wealth Services ("Fidelity"), or TD Ameritrade, Inc. ("TD Ameritrade"). All custodians assess transaction-related charges for various services such as brokerage commissions, confirmation delivery, exchanges within a mutual fund family, and early redemptions. The costs can vary depending on a number of factors including but not limited to: type of security, transaction size, and trade entry method. To obtain the current trade and account fee schedules, contact your KMS Advisor.

When evaluating custodians to recommend to Clients, KMS Advisors consider a number of factors including costs to Clients for brokerage and other services, and products and services custodians offer that will assist the Advisor in managing and administering Client accounts. While these products and services benefit KMS and KMS Advisors, they may not necessarily benefit every KMS Client directly. Services and products that KMS Advisors actively consider and evaluate include but are not limited to: software and other technology that provide access to client account data (such as trade confirmations and account statements), facilitate trade execution (and allocation of aggregate trade orders for multiple accounts), provide research and market data, facilitate KMS' management fee payments from Client accounts, assist with back-office functions, and recordkeeping and Client reporting. Many of these services may be used to service all or a substantial number of KMS accounts, including accounts not maintained on the platform that provides the services. KMS Advisors also evaluate services available that are intended to assist them in managing and developing their business enterprises. These services include consulting, practice management resources, information technology, business succession planning, regulatory compliance, and marketing.

KMS Advisors' recommendations or requirements that Clients maintain their assets in account at a particular institution may be based in part on the benefit to the KMS Advisor of the availability of some of the products and services listed above and not solely on the nature, cost or quality of the custody and brokerage services provided by the custodian, which constitutes a conflict of interest.

For advisory accounts custodied at Pershing, KMS acts a broker-dealer. As such, it determines and receives service and transaction-related charges (commissions, confirmation fees, etc.) for executing securities trades. These sources of revenue to KMS largely offset KMS' direct clearing costs and KMS' indirect costs of trade execution services. Additionally, if transaction volume of all KMS accounts (advisory and non-advisory) reaches certain monthly thresholds, Pershing will reduce KMS' clearing costs for that month. KMS' receipt of this revenue and the possibility KMS may be able to negotiate its amount or KMS' retention, constitutes a conflict of interest. To monitor and address these conflicts of interest, KMS does not incentivize (or disincentivize) Advisors to execute trades because Advisors do not share in the revenue (or costs) associated with the trades. Additionally, KMS reviews trading activity,

comparing it to account investment objectives, trading strategy and overall suitability. Clients retain overall control of their accounts including their choice of custodian and program.

KMS participates in Pershing's FUNDVEST® no transaction fee mutual fund platform which offers Clients no-load (and load-waived) mutual funds with a waiver of the standard transaction charge, subject to certain restrictions on short term trading. In lieu of transaction-based commissions, KMS is eligible to receive revenue based on the assets in the FUNDVEST® platform. KMS does not share FUNDVEST® revenue with Advisors. Such revenue relates to KMS' cost of providing such services, but receipt of this revenue constitutes a conflict of interest. KMS addresses this conflict by not sharing the revenue it earns from FUNDVEST® with the Advisors who recommend or direct the trading, and by monitoring all trading activity and related costs to Clients.

Best Execution: KMS as an investment advisor has a duty to seek "best execution" for Client transactions. "Best Execution" is a principle that securities transactions be executed in such a manner that the total cost or proceeds in each transaction is the most favorable given the facts and circumstances. Best execution does not necessarily mean the lowest available cost or best possible price for any given trade. Instead, the quality and scope of the broker-dealer services should also be evaluated to determine a qualitative measure of best execution. Based on these principles, KMS periodically reviews the totality of service packages offered by the four broker-dealers (custodians) it currently uses: Pershing, Schwab, TD Ameritrade and Fidelity. The review includes but is not limited to: the technology trading platform, ancillary services, block trading capability, trade error resolution, service response time, reporting, commission and fee structures. Accordingly, while KMS does consider the costs of trading, it does not necessarily obtain the lowest possible commission rates for Client account transactions. Also, for accounts held at Pershing with KMS as the broker-dealer, some conflicts of interest exist as described in Item 5 – Fees and Compensation, Item 12-Brokerage Practices and Item 14-Client Referrals and Other Compensation. However, each KMS Advisor is able to select the broker-dealer relationship that makes the most sense for his or her Client asset base, trading strategy and technology support needs. This flexibility allows the Advisor to productively concentrate his or her professional efforts, allowing for a more efficient and competitive Client service package, and mitigates the conflict of interest KMS has in negotiating its fees or choosing itself as broker-dealer, by vesting that decision with the Client and independent contractor registered representative.

As discussed in other portions of this document, in reviewing and approving certain brokerage platforms, allowing representatives to receive 12b-1 fees or commissions in addition to an advisory fee, allowing the FundVest program for clients, and retaining some ability to negotiate receipt of brokerage related revenue, KMS incentivizes use of those brokerage platforms and creates a conflict of interest. KMS mitigates this conflict of interest through Client disclosure, regular review of Pershing as a primary brokerage platform with KMS as broker-dealer to assure they remain competitive, given myriad parameters, and makes available competitive competing advisory platforms where KMS does not act as broker-dealer, review its activities, or negotiate its revenue.

Clients should consider that although KMS engages in analysis to offer high quality trading platforms to clients, it has chosen not to offer an unlimited number of platforms. The current available platforms are disclosed within this brochure. In light of KMS' limited approved trading platforms for KMS advisory accounts and the fact that only some of the approved trading platforms may accommodate the investment strategy recommended by the Client's KMS Advisor, KMS Advisors are limited in their ability to obtain the best execution price and lowest execution costs for each transaction or the product with the lowest internal expenses. Therefore, KMS recommends that Clients compare and discuss with their Advisor their anticipated trading patterns and costs and compare those to other non-KMS approved vendors. Clients may pay higher commissions or trade execution charges through the trading platforms approved by KMS than through platforms that have not been approved by KMS as trading platforms for investment advisory accounts. Not all Investment Advisors restrict or limit the broker-dealer their clients can use and may permit them to select any broker-dealer.

Trade Aggregation: On some occasions a KMS Advisor will execute Client transactions on a block or aggregate basis. This involves entering one large trade and allocating shares among multiple Client accounts. This may facilitate more timely execution as well as a more equitable and efficient approach to achieving favorable price execution for a group of Clients. KMS allows each Advisor to choose to engage in block trading in a manner consistent with industry standards and KMS policies. Clients participating in any such block or aggregated transactions will receive an average share price on a pro-rata basis.

Trade Allocation: KMS' trade allocation policies and procedures call for fair and equitable allocation of trades among accounts with no particular Client(s) or groups of Clients being favored or disfavored. Generally an Advisor must identify a given block trade allocation before that trade is entered. If the trade is filled as entered, the Advisor must allocate according to the pre-determined block. If issues arise that prevent the allocation pursuant to the pre-determined block, the Advisor will seek KMS approval to allocate the shares in a fair and equitable manner and document the rationale for doing so.

Trade Errors: KMS has the responsibility to execute orders correctly, promptly, and in the best interest of its Clients. If an error occurs due to KMS or Advisor's action or inaction, KMS' will seek to promptly identify and correct such error without disadvantaging the Client(s) involved.

Item 13 – Review of Accounts

Depending on the nature of the advisory relationship, Advisors review accounts at least quarterly, semi-annually, or annually to determine whether the positions, transactions, and strategies are consistent with the Client's stated investment objective(s). Advisors may review accounts with each Client in person or by phone on an ongoing basis on a predetermined schedule based on each Client's preferences. Clients may request a review of accounts with the Advisor at any time. Additionally, market events may trigger an Advisor to conduct an account review and/or communicate with Clients. Periodically KMS Compliance Officers review a sample of accounts from each Advisor for consistency with stated Client objectives, risk tolerance, time horizon, etc.

Clients are provided with monthly or quarterly statements (in written or electronic format), depending on the activity in the account, directly from the qualified custodian. Statements will include information on client holdings, balances, and account activity. Additionally, Clients will be provided with performance reports on a regular basis (quarterly, semi-annually, or annually), delivered in either written or electronic format. KMS urges Clients to read all statements and reports promptly.

Item 14 – Client Referrals and Other Compensation

Client Referrals: KMS has referral arrangements with financial institutions, such as banks or credit unions, under which they provide certain KMS Advisors with referrals to potential Clients in exchange for a portion of the investment advisory fees and/or commissions KMS may earn from that potential Client. All investment recommendations and advice are provided by the KMS Advisor who will secure from each Client a written acknowledgement that the Client understands the respective roles of KMS and the financial institution.

Other Compensation for Non-advisory Business: As discussed in Item 10 – Other Financial Industry Activities and Affiliations, Advisor may also recommend that a Client buy (or sell) a security or insurance product outside the context of the advisory account(s). If a Client decides to buy or sell a security or insurance product, KMS and Advisor may be paid a commission (including mark-up or mark-down) on those transactions. In these circumstances KMS and Advisor would have a financial interest in the transaction which constitutes a conflict of interest. Generally the Advisor will disclose the amount of compensation at the time a recommendation is made by delivering the relevant prospectus or the equivalent. Clients are under no obligation to purchase securities or insurance products through KMS or the Advisor.

LTCO acts as a dealer with respect to certain securities, and as such, may execute transactions for KMS clients as principal. As a dealer, LTCO may receive a "mark-up," "mark-down," and / or spread in the net price at which principal transactions are executed. This compensation is in addition to other compensation that client pays to KMS and its affiliates under the Program. Thus, KMS has a conflict of interest in deciding to execute trades through LTCO on a principal basis. KMS addresses this conflict in the following ways. After receiving disclosures about a specific principal transaction with LTCO, Clients have the opportunity to reject the transaction before it is completed, to the extent required by applicable law. In addition, KMS has policies and procedures in place to assure that Clients receive best execution with respect to principal trades, regardless of whether the trade is executed by LTCO or an unaffiliated dealer (see Item 12 – Brokerage Practices).

As discussed in Item 10 – Other Financial Industry Activities and Affiliations, Advisors may also engage in other businesses outside of KMS and recommend that a Client purchase such a product or service outside of the context of

the advisory account(s) (“Recommendations”). Such activities are disclosed to Clients via the attached 2B Brochure Supplement. To the extent those Recommendations create compensation for an Advisor and involve using funds from the advisory account(s), the Advisor would have a financial interest in the transaction that may constitute a conflict of interest. KMS does not share in this compensation. KMS encourages Clients to inquire with their Advisor about this possible conflict before accepting any Recommendations.

Other Compensation in General: KMS hosts **several conferences** for its Advisors, discussing timely topics about products, services, investment strategies, KMS procedures, and practice management. Various sponsors attending the conference may pay KMS a fee, which helps defray a portion of KMS’ cost of hosting the conference. This type of cost sharing is a typical practice in the industry and the conference events represent a net expense to KMS even with sponsor support.

Third party advisory firms, sponsors and custodians may offer KMS or KMS Advisors **financial assistance** in the form of marketing reimbursements, complimentary or discounted technology platforms and/or due diligence trips. Marketing reimbursement allows a third party advisor to help KMS Advisors grow their client base. Marketing reimbursements are for documentable expenses and do not exceed the cost of the item. Third party advisors provide support for due diligence and educational trips to educate and train KMS Advisors (and KMS home office staff) about that firm’s services and tools. These reimbursements do not exceed the cost of attending the trip or meeting. Further, any technology (or technology support) provided is either a tool required for the Advisor to (efficiently) deliver the service under the advisory contract or it is merely a discount off the “retail” price of the particular technology which assists the Advisor in servicing Clients. The level of these forms of support is typical in the industry and modest relative to the total value of services rendered.

Other Compensation on KMS Advisor Asset Management Accounts Held at Pershing

For Advisor Asset Management accounts held at Pershing, KMS is also the broker-dealer of record and in addition to the advisory fee specified in agreements with Clients receives compensation associated with such accounts. This compensation is discussed above in Item 12-Brokerage Practices.

Under an automatic “cash sweep” program, cash in your Pershing account is invested in money market funds (“Cash Funds”), some of which pay Trails to KMS for related services, representing a cost borne by the Cash Funds’ investors. Even though the payment to KMS of this Cash Fund Trail revenue relates to services KMS provides, receipt by KMS of the revenue represents a conflict of interest. To mitigate this conflict of interest, KMS will not pay any of the Cash Fund Trail revenue to the Advisor or Registered Representative on the account.

For any Advisor Asset Management Accounts at Pershing that use margin (borrowing), KMS receives a portion of the margin interest charged for a Client’s margin balance. KMS does not share revenue from margin interest with the Advisor. KMS’ receipt of this margin interest is a conflict of interest. KMS mitigates this conflict of interest by reviewing each client’s application for margin to make sure it is consistent with their stated needs and objectives and financial situation. Additionally, when first applying for a margin account, each client must acknowledge the risks and costs related to the use of margin.

For accounts held at Pershing, KMS will receive from Pershing a portion of the IRA maintenance fee Clients pay to Pershing, a portion of the confirmation fee on transactions as well as a portion of service fees for miscellaneous services, such as corporate actions, bond maturity, and wire transfers, etc. KMS discloses those charges annually on the Pershing account statement.

Item 15 – Custody

According to SEC rules and regulations, KMS is deemed to have “custody” of Client investment advisory accounts. KMS has procedures to ensure all client funds and securities are held at a qualified custodian (Pershing, Schwab, Fidelity or TD Ameritrade) in a separate account under that Client’s name. Clients must establish any accounts in written documents and therefore are aware of the qualified custodian’s name, address and the manner in which the funds or securities are maintained.

Qualified custodians send account statements directly to Clients at least quarterly. Clients should carefully review those statements. When Clients have questions about their statements, they should contact their KMS Advisor or the qualified custodian. Clients may also receive reports regarding their accounts from their KMS Advisor. Clients are urged to compare any reports generated by a KMS Advisor against the account statements sent by the qualified custodian.

In accordance with SEC regulations, KMS is subject to an annual surprise verification examination, the purpose of which is to verify that the funds and securities of which KMS has custody actually exist and are located at the applicable qualified custodian. The annual surprise verification examination is performed by a third-party accounting firm that is not affiliated with KMS.

Please note that payment for fees, securities and any other items cannot be made payable to a KMS Advisor, their staff members or entities owned by the KMS Advisor. Payment for securities and for funding an account must be made payable to the account's qualified custodian or KMS. The qualified custodian for a KMS client account will never be a KMS Advisor.

Item 16 – Investment Discretion

Depending on the nature of the advisory relationship, a Client may decide to grant investment discretion to his or her KMS Advisor, Subadvisor, or Third Party Advisor. Investment discretion granted to a KMS Advisor is limited to the selection of the securities to be bought or sold and the amount of the securities to be bought or sold and must be authorized in writing by the Client.

Item 17 – Voting Client Securities

Most KMS Advisors elect not to vote proxies on behalf of their Clients. Clients that have elected to vote their own proxies will receive these directly from the account custodian or a transfer agent. If an Advisor does elect to vote proxies on behalf of Clients, such Clients must authorize KMS and the Advisor to do so through the applicable account application, contract or agreement. The KMS Advisor will perform the necessary research regarding each issue, evaluate any costs involved, document the findings, and vote in the clients best interests. If there are any conflicts of interest, these conflicts will be disclosed to the Client and Client consent will be received prior to the proxy vote being submitted. If the Client would like to direct the proxy vote on a particular issue the Client should communicate their instructions to the KMS Advisor timely, in such that the Advisor can act upon the instructions. Clients may obtain a copy of the KMS Proxy Voting Policies and also may obtain information as to how proxies were voted on their behalf upon request.

Item 18 – Financial Information

KMS is required to provide Clients with certain financial information or disclosures about its financial condition. KMS has no financial commitment that impairs our ability to meet our contractual and fiduciary commitments to you, and KMS has not been, nor does it expect to be, the subject of a bankruptcy proceeding.