

# Disclosure Brochure

**JUNE 5, 2015**

## **Kay Investments, Inc.**

*a Registered Investment Adviser*

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This brochure provides information about the qualifications and business practices of Kay Investments, Inc. (hereinafter "Kay Investments"). If you have any questions about the contents of this brochure, please contact Darrell Kay at (505) 800-5939. 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 Kay Investments, Inc. is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Kay Investments, Inc. is a registered investment adviser. Registration does not imply any level of skill or training.

## Item 2. Material Changes

This Item discusses only the material changes that have occurred since Kay Investments' last annual update, dated March 27, 2014. While certain information has been updated, Kay Investments does not have any material changes to disclose in this Item. Kay Investments filed an initial application for state registration on January 13, 2015.

### State Registration

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Due to the firm's relocation of its principal place of business from New York to New Mexico, Kay Investments is required to obtain state-level investment adviser registration and withdraw its current registration with the U.S. Securities and Exchange Commission (SEC). This switch to state registration means that Kay Investments will be primarily regulated by various state securities regulators, rather than the SEC. This change in registration status will have little, if any, impact on the investment advisory services that Kay Investments provides to its clients. Kay Investments will, however, now provide clients with duplicate fee invoices describing the amounts debited for payment of the firm's management fees, in accordance with applicable state laws, rules and regulations.

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## Item 4. Advisory Business

Kay Investments was founded by its Principal Darrell Joseph Kay in May 2000 and is principally owned by Alice Buckley Kay and Darrell Kay with a mission to provide clients with investment strategies for all market conditions without any ties to a particular brokerage house. As of December 31, 2014, Kay Investments had \$49,779,009 in assets under management, \$47,099,878 of which were managed on a discretionary basis and \$2,679,131 of which were managed on a nondiscretionary basis. Kay Investments does not sponsor or manage a wrap fee program.

Prior to engaging Kay Investments to provide any of the foregoing investment advisory services, the client is required to enter into one or more written agreements with Kay Investments setting forth the terms and conditions under which Kay Investments renders its services (collectively the “*Agreement*”). The Firm believes that all material conflicts of interest regarding Kay Investments, its *Supervised Persons* (defined below) and employees which could reasonably be expected to impair its rendering of unbiased objective advice to an advisory client under Section 260.238(k) of the California Code of Regulations have been disclosed.

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

### Investment Management Services

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Clients can engage Kay Investments to manage all or a portion of their assets on a discretionary or non-discretionary basis. With regard to portfolio management services, Kay Investments offers its primary services pursuant to two types of investment strategies: fundamental and technical analysis as described further in Item 8. Kay Investments provides its services to individuals, investment limited partnerships, pension and profit sharing plans, trusts, estates, charitable organizations, corporations and business entities.

As further discussed in Item 8, Kay Investments primarily allocates clients’ investment management assets among mutual funds, exchange-traded funds (“ETFs”), individual equities, and *Independent Managers* (as defined below), in accordance with the investment objectives of the client. Kay Investments also provides advice about any type of investment held in clients’ portfolios.

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

Clients are advised to promptly notify Kay Investments if there are changes in their financial situation or investment objectives or if they wish to impose any reasonable restrictions upon Kay Investments' management services. Clients may impose reasonable restrictions or mandates on the management of their account if, in Kay Investments' sole discretion, the conditions will not materially impact the performance of a portfolio strategy or prove overly burdensome to its management efforts.

### Use of Independent Managers

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

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

In addition to Kay Investments' written disclosure brochure, the client also receives the written disclosure brochure of the designated *Independent Managers*. Certain *Independent Managers* may impose more restrictive account requirements and varying billing practices than Kay Investments. In such instances, Kay Investments may alter its corresponding account requirements and/or billing practices to accommodate those of the *Independent Managers*.

If Kay Investments refers a client to an *Independent Manager* where Kay Investments' compensation is included in the advisory fee charged by such *Independent Manager* and the client engages the *Independent Manager*, Kay Investments is compensated for its services by receipt of a fee to be paid directly by the *Independent Manager* to Kay Investments in accordance with the requirements of Rule 206(4)-3 of the Investment Advisers Act of 1940, as amended, and any corresponding state securities

laws, rules, regulations, or requirements. Any such fee is paid solely from the *Independent Manager's* investment management fee, and does not result in any additional charge to the client.

### Management of Collective Investment Vehicle

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Kay Investments' affiliate, Kay Income Management, Inc., is the general partner of Kay Income Partners, L.P. ("*KIP*"), a New York limited partnership formed in 2004 to engage primarily in the business of investing and trading in securities. Interests in *KIP* are privately offered pursuant to Regulation D under the Securities Act of 1933, as amended. *KIP* currently relies on an exemption from registration under the Investment Company Act of 1940, as amended. *KIP* invests primarily, in mortgage securities.

Participation as an investor in *KIP* is generally restricted to investors that are "accredited investors" as defined under Rule 501 of the Securities Act of 1933, as amended.

To the extent certain of Kay Investments' individual advisory clients qualify, they will be eligible to participate as limited partners of *KIP*. Investment in *KIP* involves a significant degree of risk. All relevant information, terms and conditions relative to *KIP*, including the compensation received by Kay Investments or any affiliate as the general partner and/or investment manager, suitability, risk factors, and potential conflicts of interest, are set forth in the Confidential Private Offering Memorandum (the "*Memorandum*"), Limited Partnership Agreement (the "*Agreement*"), and Subscription Agreement (together, the "*Offering Documents*"), which each investor is required to receive and/or execute prior to being accepted as an investor in *KIP*.

While *KIP* is generally Kay Investments' client, the term "client(s)" sometimes refers to the investors in *KIP*.

Kay Investments will devote its best efforts with respect to its management of both *KIP* and its individual client accounts. Given the above discussion relative to the objectives, suitability, risk factors, and qualifications for participation in *KIP*, Kay Investments may give advice or take action with respect to *KIP* that differs from that for individual client accounts. Kay Investments generally does not invest client assets in the same types of securities as *KIP*.

## Item 5. Fees and Compensation

Kay Investments offers its services on a fee basis based upon assets under management. Lower fees for comparable services may be available from other sources.

### Investment Management Fee

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Kay Investments provides investment management services for an annual fee based upon a percentage of the market value of the assets being managed by Kay Investments. Kay Investments' annual fee is exclusive of, and in addition to brokerage commissions, transaction fees, and other related costs and expenses which are incurred by the client. Kay Investments does not, however, receive any portion of these commissions, fees, and costs. Kay Investments' annual fee is prorated and charged quarterly, in arrears, based upon the market value of the assets being managed by Kay Investments on the last day of the previous quarter. The annual fee varies (between 0.40% and 0.95%) depending upon the market value of the assets under management and the type of investment management services to be rendered.

As discussed in Item 4, the compensation that Kay Investments receives as the investment manager to *KIP* is disclosed in the *Offering Documents*.

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

### Fees Charged by Financial Institutions

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As further discussed in response to Item 12 (below), Kay Investments generally recommends that clients utilize the brokerage and clearing services of Fidelity Institutional Wealth Services ("*Fidelity*") for investment management accounts.

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

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

assets outside of any wrap fee programs, clients may incur brokerage commissions and transaction fees. Such charges, fees and commissions are exclusive of and in addition to Kay Investments' fee.

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

### **Fees for Management During Partial Quarters of Service**

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

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

Clients may make additions to and withdrawals from their account at any time, subject to Kay Investments' right to terminate an account. Additions may be in cash or securities provided that Kay Investments reserves the right to liquidate any transferred securities or decline to accept particular securities into a client's account. Clients may withdraw account assets on notice to Kay Investments, subject to the usual and customary securities settlement procedures. However, Kay Investments designs its portfolios as long-term investments and the withdrawal of assets may impair the achievement of a client's investment objectives. Kay Investments may consult with its clients about the options and ramifications of transferring securities. However, clients are advised that when transferred securities are liquidated, they are subject to transaction fees, fees assessed at the mutual fund level (i.e. contingent deferred sales charge) and/or tax ramifications.

If assets are deposited into or withdrawn from an account after the inception of a quarter, the fee payable with respect to such assets will not be adjusted or prorated based on the number of days remaining in the quarter.



## **Outside Compensation For the Sale of Securities to Clients**

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Kay Investments' affiliate, Kay Income Management, Inc., is the general partner of Kay Income Partners, L.P. ("KIP"), a New York limited partnership formed in 2004 to engage primarily in the business of investing and trading in securities. Interests in KIP are privately offered pursuant to Regulation D under the Securities Act of 1933, as amended. KIP invests primarily in mortgage securities.

Kay Investments may accept compensation for the sale of securities or other investment products, including asset based sales charges or services fees. This presents a conflict of interest and gives an incentive to recommend products based on the compensation received rather than on the client's needs. When recommending the sale of securities or investment products for which compensation is received, Kay Investments will document the conflict of interests in the client file and inform the client of the conflict of interest.

## **Client Have the Option to Purchase Recommended Products From Other Brokers**

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Clients always have the option to purchase Kay Investments recommended products through other brokers or agents that not affiliated with Kay Investments.

## **Commissions are the Primary Source of Income for this RIA**

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Commissions are not Kay Investments' primary source of compensation.

## **Advisory Fees in Addition to Commissions or Markups**

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Advisory fees that are charged to clients are not reduced to offset commissions or markups on securities or investment products recommended to clients.

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

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

## Item 7. Types of Clients

Kay Investments provides its services to individuals, investment limited partnerships, pension and profit sharing plans, trusts, estates, charitable organizations, corporations and business entities.

### Minimum Account Size

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As a condition for starting and maintaining a relationship, Kay Investments generally imposes a minimum portfolio size of \$250,000. Kay Investments, in its sole discretion, may accept clients with smaller portfolios based upon certain criteria including anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client, account retention, and *pro bono* activities. Kay Investments only accepts clients with less than the minimum portfolio size if, in the sole opinion of Kay Investments, the smaller portfolio size will not cause a substantial increase of investment risk beyond the client's identified risk tolerance. Kay Investments may aggregate the portfolios of family members to meet the minimum portfolio size.

In order to invest in *KIP*, a minimum investment of \$100,000 is generally required, subject to the waiver at the discretion of the general partner as further disclosed in the *Offering Documents*.

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

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

### Methods of Analysis and Investment Strategies

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Kay Investments generally offers an investment program that provides a series of mutual fund model portfolios (generally for accounts custodied at *Fidelity*).

For its portfolio program at *Fidelity*, Kay Investments offers multiple model portfolios ranging from conservative to aggressive which are primarily invested in mutual funds. Additionally, Kay Investments will build custom portfolios for clients, taking into account goals, risk profile, temperament, etc.

When developing and implementing a portfolio invested primarily in mutual funds, Kay Investments uses a fundamental analysis. This analysis involves an evaluation and comparison of various mutual fund characteristics, including fund objectives, performance history, management style, independent rating and ranking, adherence to stated objectives, portfolio statistics, experience and tenure of management team and contribution to desired overall portfolio diversification. The analysis may also account for perceived analysis of market and economic environment. The primary risk in using fundamental analysis relative to mutual funds is that markets may behave differently than they did in the periods during which the funds were evaluated. Further, any perceived analysis of market and economic conditions may prove incorrect.

When developing and implementing a portfolio invested primarily in individual equities and ETFs, Kay Investments uses a form of technical analysis. Such analysis may involve the use of historical statistics to identify market tendencies, trends and opportunities. These are not based on the fundamental condition of any company or companies. The primary risk in using technical analysis is that such historical tendencies, trends and opportunities may not repeat in the future, regardless of the robustness of the statistics or analysis. Further, even if the trends, tendencies or opportunities do eventually recur, there is no guarantee that Kay Investments will be able to capitalize on those recurrences.

### Risks of Loss

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#### *General Risk of Loss*

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

#### *Mutual Funds and ETFs*

An investment in a mutual fund or ETF involves risk, including the loss of principal. Mutual fund and ETF shareholders are necessarily subject to the risks stemming from the individual issuers of the fund's underlying portfolio securities. Such shareholders are also liable for taxes on any fund-level capital gains, as mutual funds and ETFs are required by law to distribute capital gains in the event they sell securities for a profit that cannot be offset by a corresponding loss.

Shares of mutual funds are generally distributed and redeemed on an ongoing basis by the fund itself or a broker acting on its behalf. The trading price at which a share is transacted is equal to a fund's stated daily per share net asset value ("NAV"), plus any shareholders fees (e.g., sales loads, purchase fees, redemption fees). The per share NAV of a mutual fund is calculated at the end of each business day, although the actual NAV fluctuates with intraday changes to the market value of the fund's holdings. The trading prices of a mutual fund's shares may differ significantly from the NAV during periods of market volatility, which may, among other factors, lead to the mutual fund's shares trading at a premium or discount to NAV.

Shares of ETFs are listed on securities exchanges and transacted at negotiated prices in the secondary market. Generally, ETF shares trade at or near their most recent NAV, which is generally calculated at least once daily for index-based ETFs and more frequently for actively managed ETFs. However, certain inefficiencies may cause the shares to trade at a premium or discount to their pro rata NAV. There is also no guarantee that an active secondary market for such shares will develop or continue to exist. Generally, an ETF only redeems shares when aggregated as creation units (usually 50,000 shares or more). Therefore, if a liquid secondary market ceases to exist for shares of a particular ETF, a shareholder may have no way to dispose of such shares.

### *Market Risks*

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

### *Use of Independent Managers*

Kay Investments may recommend the use of *Independent Managers* for certain clients. Kay Investments will continue to do ongoing due diligence of such managers, but such recommendations rely, to a great extent, on the *Independent Managers* ability to successfully implement their investment strategy. In addition, Kay Investments does not have the ability to supervise the *Independent Managers* on a day-to-day basis other than as previously described in response to Item 4, above.

### *Use of Private Collective Investment Vehicles*

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

### *Use of Collective Investment Trusts (CITs)*

Kay Investments may utilize CITs within defined benefit or defined contribution plans under its management. CITs are created exclusively for qualified retirement plans, including 401K plans in particular. Kay Investments will often utilize Target Date CITs within participant directed 401K plans as qualified default investment alternatives (QDIAs). CITs are not available to the general public. As with certain hedge funds, CITs are unregistered, but unlike hedge funds CITs are supervised by the Office of the Comptroller of the Currency.

### *Management Through Similarly Managed Accounts*

For certain clients, Kay Investments may manage portfolios by allocating portfolio assets among various mutual funds on a discretionary basis using one or more of its proprietary investment strategies (collectively referred to as “*investment strategy*”). In so doing, Kay Investments buys, sells, exchanges and/or transfers shares of mutual funds based upon the *investment strategy*.

Kay Investments’ management using the *investment strategy* complies with the requirements of Rule 3a-4 of the Investment Company Act of 1940, as amended. Rule 3a-4 provides similarly managed accounts, such as the *investment strategy*, with a safe harbor from the definition of an investment company.

Securities in the *investment strategy* are usually exchanged and/or transferred without regard to a client’s individual tax ramifications. Certain investment opportunities that become available to Kay Investments’ clients may be limited. For example, various mutual funds companies may limit the ability of Kay Investments to buy, sell, exchange or transfer securities consistent with its *investment strategy*. As further discussed in response to Item 12 (below), Kay Investments allocates investment opportunities among its clients on a fair and equitable basis.

### **Item 9. Disciplinary Information**

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

## Item 10. Other Financial Industry Activities and Affiliations

Kay Investments is required to disclose any relationship or arrangement that is material to its advisory business or to its clients with certain related persons. Kay Investments has disclosed such information below. Kay Investments and its management persons are not registered and have not submitted an application to register as a broker-dealer or registered representative of a broker-dealer, a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of the foregoing.

### **Use of Independent Managers**

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As mentioned in Item 4, Kay Investments recommends that certain clients authorize the active discretionary management of a portion of their assets by and/or among certain independent investment managers, based upon the stated investment objectives of the client. Prior to engaging an Independent Manager, Kay Investments ensures that Independent Managers are properly licensed or registered as investment advisers and reviews information about the Independent Manager, including its disclosure brochure, to the extent available. Please see Item 4 for more information about factors that Kay Investments considers in the selection of Independent managers.

### **Fees from Independent Managers**

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As discussed above, Kay Investments recommends that certain clients authorize the active discretionary management of a portion of their assets by and/or among certain *Independent Managers*. In certain circumstances Kay Investments' compensation is included in the advisory fee charged by such *Independent Managers*. There may be a conflict of interest to choose *Independent Managers* where Kay Investments receives a bigger portion of the *Independent Managers'* fee. Kay Investments has instituted procedures to ensure that any recommendations are made in the best interest of its clients.

### **Registration Relationships Material to this Advisory Business and Possible Conflicts of Interests**

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Kay Income Management, Inc is the general partner of Kay Income Partners, LP ("*KIP*"). Kay Income Management, Inc. is the affiliate of Kay Investments. *KIP* is a New York limited partnership formed in 200 to engage primarily in the business of investing and trading in securities. Interests in *KIP* are privately offered pursuant to Regulation D under the Securities Act of 1933, as amended. *KIP* currently relies on an exemption from registration under the Investment Company Act of 1940, as amended. *KIP* invests primarily in mortgage securities.

From time to time, Kay Investments may offer clients to participate as limited partners of *KIP*. Clients should be aware that this may pay commission and involve a conflict of interest as commissionable products conflict with the fiduciary duties of a registered investment adviser. Kay Investments always acts in the best interest of the client, including the sale of commissionable products to advisory clients. Clients are in no way required to implement the plan through any representative of Kay Investments.



All material conflicts of interest under Section 260.238(k) of the California Corporations Code are disclosed regarding the investment adviser, its representatives or any of its employees, which could be reasonably expected to impair the rendering of unbiased and objective advice.

### Item 11. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

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

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

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

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

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

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

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

As discussed above in response to Item 4, an affiliate of Kay Investments is the general partner to *KIP*. Kay Investments may recommend, on a fully disclosed basis, that certain clients invest in *KIP*. As such, a conflict of interest exists to the extent that Kay Investments recommends that clients invest in *KIP*. Kay Investments does not receive any additional compensation if a client invests in the *Private Fund*. As such, Kay Investments does not believe this arrangement poses any additional conflict of interest.

## Item 12. Brokerage Practices

As discussed above, in Item 5, Kay Investments generally recommends that clients utilize the brokerage and clearing services of *Fidelity*.

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

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

Kay Investments periodically and systematically reviews its policies and procedures regarding its recommendation of *Financial Institutions* in light of its duty to obtain best execution.

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

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

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

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

### **Software and Support Provided by Financial Institutions**

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Kay Investments may receive from *Fidelity*, without cost to Kay Investments, computer software and related systems support, which allow Kay Investments to better monitor client accounts maintained at *Fidelity*. Kay Investments may receive the software and related support without cost because Kay Investments renders investment management services to clients that maintain assets at *Fidelity*. The software and support is not provided in connection with securities transactions of clients (i.e. not "soft dollars"). The software and related systems support may benefit Kay Investments, but not its clients directly. In fulfilling its duties to its clients, Kay Investments endeavors at all times to put the interests of its clients first. Clients should be aware, however, that Kay Investments' receipt of economic benefits

from a broker-dealer creates a conflict of interest since these benefits may influence Kay Investments' choice of broker-dealer over another broker-dealer that does not furnish similar software, systems support, or services.

Additionally, Kay Investments may receive the following benefits from *Fidelity* through the Fidelity Institutional Wealth Services Group: receipt of duplicate client confirmations and bundled duplicate statements; access to a trading desk that exclusively services its Institutional Wealth Services Group participants; access to block trading which provides the ability to aggregate securities transactions and then allocate the appropriate shares to client accounts; and access to an electronic communication network for client order entry and account information.

### **Item 13. Review of Accounts**

For those clients to whom Kay Investments provides investment management services, Kay Investments monitors those portfolios as part of an ongoing process while regular account reviews are conducted on at least a quarterly basis. Such reviews are conducted by the Principal of Kay Investments, Darrell J. Kay. All investment advisory clients are encouraged to discuss their needs, goals, and objectives with Kay Investments and to keep Kay Investments informed of any changes thereto. Kay Investments contacts ongoing investment advisory clients at least annually to review its previous services and/or recommendations and to discuss the impact resulting from any changes in the client's financial situation and/or investment objectives.

Unless otherwise agreed upon, clients are provided with transaction confirmation notices and regular summary account statements directly from the broker-dealer or custodian for the client accounts.

### **Item 14. Client Referrals and Other Compensation**

Kay Investments is required to disclose any relationship or arrangement where it receives an economic benefit from a third party (non-client) for providing advisory services. In addition, Kay Investments is required to disclose any direct or indirect compensation that it provides for client referrals. Kay Investments does not have any required disclosures to this Item.

Kay Investments may receive economic benefits from non-clients for providing advice or other advisory services to clients. This type of relationship poses a conflict of interest and any such relationship is disclosed in response to Item 12, above.

### Item 15. Custody

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

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



### Item 16. Investment Discretion

Kay Investments may be given the authority to exercise discretion on behalf of clients. Kay Investments is considered to exercise investment discretion over a client's account if it can effect transactions for the client without first having to seek the client's consent. Kay Investments is given this authority through a power-of-attorney included in the agreement between Kay Investments and the client. Clients may request a limitation on this authority (such as certain securities not to be bought or sold). Kay Investments takes discretion over the following activities:

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

### Item 17. Voting Client Securities

Kay Investments is required to disclose if it accepts authority to vote client securities. Kay Investments does not vote client securities on behalf of its clients. Clients receive proxies directly from the *Financial Institutions*.

### **Item 18. Financial Information**

Kay Investments does not require or solicit the prepayment of more than \$500 in fees six months or more in advance. In addition, Kay Investments is required to disclose any financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients. Kay Investments has no disclosures pursuant to this Item.

## Item 19. Requirement for State Registered Advisers

### Principal Executive Officer and Management Person

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**DARRELL JOSEPH KAY**

Born 1950

#### Post-Secondary Education

University of Rochester | M.B.A., Finance & Economics | 1982

University of Wisconsin | M.A., Mathematics | 1975

University of Rochester | B.A., Mathematics | 1972

#### Recent Business Background

Kay Investments, Inc. | President | May 2000 – Present

#### Additional Information

Neither the Firm nor its Supervised Persons are compensated for advisory services with performance-based fees. Neither the Firm nor its Supervised Persons have been the subject of the type of disciplinary event that warrants disclosure pursuant to this Item. Neither the Firm nor its Supervised Persons have a material relationship or arrangement with any issuers of securities.

#### Business Continuity Plan

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It is the Firm's policy to attempt to provide continuous, uninterrupted services to its clients. Kay Investments has adopted a Business Continuity Plan. In the event of a business interruption, the Firm will seek to minimize the impact of the interruption, sustain a minimally acceptable level of service for an extended period of time, and return to normal business activities as quickly as possible.

**Kay Investments, Inc.**

*a Registered Investment Adviser*

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Prepared by:

